**INDEPENDENT AUDITOR'S REPORT**
(Free translation)

**To the shareholders of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság**

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the accompanying consolidated financial statements of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as of 31 December 2021 (in which total assets are MHUF 710 920 ), the consolidated statement of total comprehensive income (in which the total comprehensive income for the year is MHUF 6 210 profit), the consolidated statement of changes in equity, the consolidated statement of cash flows the year then ended and the notes to the consolidated financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee dated 23 February 2022.

### Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Group, in the period from 1 January 2021 to 31 December 2021, are disclosed in note 35 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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

**Our audit approach**

***Overview***

| | |
|---|---|
| *Overall group materiality* | Overall group materiality applied was MHUF 381 |
| *Group Scoping* | We included all subsidiaries in our audit which resulted in 100% audit coverage of consolidated revenue and consolidated net profit. |
| *Key Audit Matters* | Expected credit loss on receivables from customers |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

***Materiality***

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

| | |
|---|---|
| *Materiality* | MHUF 381 |
| *Determination* | 5% of the consolidated profit before tax |
| *Rationale for the materiality benchmark applied* | We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.<br>We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. |

### *Group audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have included all subsidiaries in our audit, which enabled us to cover 100% of consolidated revenue and consolidated net income.

### *Key audit matters*

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

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| **Expected credit loss on receivables from customers**<br><br>The net amount of receivables from customers at amortised cost was MHUF 509 033 as at 31 December 2021, representing 71.6% of total assets. Credit loss allowance recognised in the balance sheet amounted to MHUF 8 728.<br><br>Management disclosed related assumptions, balances and estimates in points 4.1.b and 6.4 of the notes to the financial statements on accounting policy, as well as in notes 11, 25, 32.1. and 36.<br><br>Credit loss allowance recognised on expected credit losses is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating collective expected credit loss allowances especially when considering the current uncertain economic environment, mainly as a result of COVID-19 pandemic.<br><br>The first step in the expected credit loss calculation is to identify whether there was significant increase in credit risk. The selected indicators will determine whether a 12-month or a lifetime expected credit loss is calculated.<br><br>The Group applies impairment models to calculate collective credit loss allowances. These models quantify the probability of default, exposure at default and the loss given default as the primary parameters in the | We gained an understanding of the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment due to the COVID-19 pandemic in expected credit losses.<br><br>For collective loss allowances we assessed whether the methodology applied by the Group was compliant with IFRS 9 with the support of our internal modelling experts. We recalculated, on a sample basis, selected model parameters and the expected credit loss allowances, and assessed the tool used by the Company to calculate expected credit loss parameters.<br><br>We checked input data for the expected credit loss allowance calculation (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analysed the development of credit losses.<br><br>To address increased estimation uncertainty related to Covid-19, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state payment support programs. We also critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions, |

estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of IFRS 9.

The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently vary across customer segments - can result in limitations in their reliability to appropriately estimate expected credit loss.

A further limitation is caused by the fact that to reduce the economic consequences of the COVID-19 pandemic, the Hungarian government maintained the loan support programs introduced last year, including moratorium on loan repayment transactions available to and still used by many debtors. These programs complicate a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates.

To address these limitations, management applied quantitative and qualitative adjustments to expected credit loss that include the following:

- Additional criteria to assess significant increase in credit risk, partly relating to those staying in the moratorium.
- Additional expert judgement based adjustments of the estimation method of credit risk parameters.

We paid considerable attention to this area during our audit due to the significance of the amounts involved and because of the subjective nature of the judgments and assumptions that management is required to make, particularly due the high level of uncertainty that can be experienced in assessing the economic impact of the COVID-19 pandemic.

to identify significant increases in credit risk of single customers or customer groups.

We read points 4.1.b, 6.4, 11, 25, 32.1. and 36 of the notes to the financial statements to assess whether disclosures are in line with the applicable regulations.

## Other information: the consolidated business report

Other information comprises the consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the consolidated business report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the consolidated business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the consolidated business report to consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the consolidated business report is consistent with the consolidated financial statements.

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C in it's consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

In our opinion, the 2021 consolidated business report of the Group is consistent with the 2021 consolidated financial statements in all material respects, and the consolidated business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the consolidated business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the consolidated business report and therefore we have nothing to report in this respect.

The consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and to prepare the consolidated financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the consolidated financial statements 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.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 HNSAs 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 financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the consolidated financial statements 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 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 financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

## Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 23 February 2021 (with an effective date of 1 June 2021).

The engagement partner on the audit resulting in this independent auditor's report is Enikő Könczöl.

Budapest, 23 February 2022

Enikő Könczöl
Partner
Statutory auditor
Licence number: 007367
PricewaterhouseCoopers Könyvvizsgáló Kft.
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*Translation note:*

*Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.*


# 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 2021

Fundamenta

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2021.

| (HUF million) | Note | 31.12.2021 | 31.12.2020 (restated) | 01.01.2020 (restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 9.1. | 76 903 | 58 156 | 57 276 |
| Securities | 10.1. | 103 286 | 140 524 | 109 412 |
| Receivables from customers | 11.1. | 509 033 | 476 662 | 452 165 |
| Other financial receivables | 12. | 1 158 | 1 160 | 656 |
| Property, plant and equipment | 13. | 8 418 | 9 932 | 10 631 |
| Intangible assets | 14. | 8 289 | 8 126 | 7 393 |
| Current income tax assets | 29. | 1 020 | 1 158 | 613 |
| Deferred tax assets | 29. | 344 | 514 | 185 |
| Other assets | 15. | 2 469 | 2 037 | 1 136 |
| **TOTAL ASSETS** | | **710 920** | **698 269** | **639 467** |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| Liabilities to customers | 16. | 640 288 | 632 325 | 576 089 |
| Other financial liabilities | 17. | 6 936 | 9 197 | 8 112 |
| Provisions | 18. | 1 152 | 1 183 | 1 168 |
| Current income tax liabilities | 29. | 442 | 25 | 0 |
| Deferred tax liabilities | 29. | 5 | 0 | 0 |
| Other liabilities | 19. | 1 583 | 1 235 | 1 381 |
| **TOTAL LIABILITIES** | | **650 406** | **643 965** | **586 750** |
| Share capital | 20. | 2 001 | 2 001 | 2 001 |
| Capital reserve | 20. | 2 100 | 2 100 | 2 100 |
| Retained earnings | 20. | 36 575 | 33 027 | 28 505 |
| Statutory reserves | 20. | 13 628 | 13 089 | 12 860 |
| Settlement reserve | 20. | 6 959 | 6 959 | 6 959 |
| General reserve | 20. | 6 669 | 6 130 | 5 901 |
| Profit for the year | 20. | 6 210 | 4 087 | 7 251 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **60 514** | **54 304** | **52 717** |
| **Equity attributable to owners of the parent company** | | **60 514** | **54 304** | **52 717** |
| **Equity attributable to non-controlling interests** | | **0** | **0** | **0** |
| **TOTAL EQUITY AND LIABILITIES** | | **710 920** | **698 269** | **639 467** |

Budapest, 22 February 2022

**Bernadett Tátrai**
Chairwoman of the Board,
Chief Executive Officer

**Rainer Kaschel**
Member of the Board

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31. DECEMBER 2021

| (HUF million) | Note | 2021 | 2020 (restated) |
|---|---|---|---|
| Interest income | 21.1. | 30 398 | 29 576 |
| Interest expense | 21.2. | -7 487 | -7 270 |
| **NET INTEREST INCOME** | **21.** | **22 911** | **22 306** |
| Fee and commission income | 22.1. | 3 624 | 3 195 |
| Fee and commission expense | 22.2. | -1 818 | -1 554 |
| **NET FEE AND COMMISSION INCOME** | **22.** | **1 806** | **1 641** |
| Foreign exchange translation gains less losses | 23. | 79 | -473 |
| Net gain arising from derecognition of financial assets and liabilities measured at amortised cost | 24. | 917 | 761 |
| Loss from contract amendments due to payment moratorium | 36. | -731 | -2 386 |
| Change in impairment of financial assets and changes in credit provisions | 25. | -1 562 | -2 184 |
| Other operating income | 26. | 506 | 280 |
| Other operating expenses | 27. | -1 995 | -1 784 |
| Operating costs | 28. | -14 297 | -12 936 |
| **PROFIT BEFORE TAX** | | **7 634** | **5 225** |
| Income taxes | 29. | -1 424 | -1 138 |
| **NET PROFIT** | | **6 210** | **4 087** |
| **OTHER COMPREHENSIVE INCOME** | | **0** | **0** |
| **TOTAL COMPREHENSIVE INCOME** | | **6 210** | **4 087** |
| **Net profit** | | | |
| Net profit attributable to owners of the Company | | 6 210 | 4 087 |
| Net profit attributable to non-controlling interests | | 0 | 0 |
| **Total comprehensive income** | | | |
| Total comprehensive income attributable to owners of the Company | | 6 210 | 4 087 |
| Total comprehensive income attributable to non-controlling interests | | 0 | 0 |

Budapest, 22 February 2022

**Bernadett Tátrai**
Chairwoman of the Board,
Chief Executive Officer

**Rainer Kaschel**
Member of the Board

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31. DECEMBER 2021

| (HUF million) | Note | 2021 | 2020 (restated) |
|---|---|---|---|
| **NET PROFIT** | | **6 210** | **4 087** |
| **Adjustments for operating activities** | | | |
| Depreciation and amortisation | 28.3. | 3 139 | 3 048 |
| Impairment of securities and reversal thereof, net | 25. | 9 | 79 |
| Impairment of receivables from customers and reversal thereof, net | 25. | 1 504 | 2 116 |
| Impairment of other financial receivables and reversal thereof, net | 25. | 26 | 14 |
| Net profit from sale of financial assets (securities) | 24. | -917 | -743 |
| Profit from sale of property, plant and equipment, intangible assets | 26. | -5 | -630 |
| P&L effects related to leases without change in cash flows | 30.2. | -217 | 0 |
| Loss on derecognition of property, plant and equipment, intangible assets | 13.,14. | 53 | 0 |
| Recognition and release of provisions | 18. | -32 | 15 |
| Income tax expense | 29. | 1 424 | 1 138 |
| **Operating cash flows before changes in assets and liabilities from operating activities** | | **4 984** | **5 037** |
| Securities | 10.,24. | 933 | 277 |
| Receivables from customers | 11. | -33 875 | -26 613 |
| Other financial receivables | 12. | -32 | -510 |
| Other assets | 15. | -423 | -1 748 |
| Liabilities to customers | 16. | 7 962 | 56 237 |
| Other financial liabilities without leases | 17. | 163 | 1 534 |
| Other liabilities | 19. | 350 | -576 |
| **Total changes in assets and liabilities from operating activities** | | **-24 922** | **28 601** |
| Income taxes paid | 19. | -695 | -721 |
| **Net cash from/used in operating activities** | | **-14 423** | **37 004** |

| Investment cash flow | Note | 2021 | 2020 |
|---|---|---|---|
| Acquisition of securities | 10.,24. | -10 353 | -88 887 |
| Proceeds from sale and expiry of securities | 10.,24. | 47 567 | 58 163 |
| Acquisition of property, plant and equipment | 13. | -715 | -619 |
| Proceeds from sale of property, plant and equipment, intangible assets | 26. | 19 | 40 |
| Acquisition of intangible assets | 14. | -1 555 | -1 872 |
| **Net cash from/used in investing activities** | | **34 963** | **-33 175** |

| Financing cash flow | Note | 2021 | 2020 |
|---|---|---|---|
| Repayment of lease liabilites | 30.2. | -1 236 | -1 006 |
| Dividend paid | 20. | -557 | -1 943 |
| **Net cash from/used in financing activities** | | **-1 793** | **-2 949** |
| **Net increase in cash and cash equivalents** | | **18 747** | **880** |
| Balance at 31 December of the previous year | | 58 156 | 57 276 |
| **Cash and cash equivalents at 31 December** | **9.** | **76 903** | **58 156** |

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

In the reporting period the Group paid HUF 6,892 million interest (2020: HUF 6,726 million) of which HUF 6,715 million related to operating activities (2020: HUF 6,482 million), HUF 177 million related to financing activities (2020: HUF 244 million). Interest received totalled HUF 28,956 million in the financial year (2020: HUF 26,610 million) of which HUF 23,240 million related to operating activities (2020: HUF 21,241 million), HUF 5,716 million related to investing activities (2020: HUF 5,369 million).

In 2021 repayment of lease liabilities included HUF 177 million interest portion and HUF 1,059 million principal portion.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31. DECEMBER 2021 (NOTES 1., 6.18, AND 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 2020 (published)** | **2 001** | **2 100** | **28 874** | **6 959** | **5 966** | **0** | **7 468** | **53 368** | **0** | **53 368** |
| Adjustment | 0 | 0 | -369 | 0 | -65 | 0 | -217 | -651 | 0 | -651 |
| **Balance at 1 January 2020 (restated)** | **2 001** | **2 100** | **28 505** | **6 959** | **5 901** | **0** | **7 251** | **52 717** | **0** | **52 717** |
| ***Net profit*** | **0** | **0** | **0** | **0** | **0** | **0** | **4 087** | **4 087** | **0** | ***4 087*** |
| ***Total other comprehensive income*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| **Total comprehensive income** | **0** | **0** | **0** | **0** | **0** | **0** | **4 087** | **4 087** | **0** | **4 087** |
| 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 | 7 251 | 0 | 0 | 0 | -7 251 | 0 | 0 | 0 |
| ***Total contributions and distributions*** | ***0*** | ***0*** | ***4 751*** | ***0*** | ***0*** | ***0*** | ***-7 251*** | ***-2 500*** | ***0*** | ***-2 500*** |
| General reserve | 0 | 0 | -229 | 0 | 229 | 0 | 0 | 0 | 0 | 0 |
| ***Total other changes in equity*** | ***0*** | ***0*** | ***-229*** | ***0*** | ***229*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| **Balance at 31 December 2020** | **2 001** | **2 100** | **33 027** | **6 959** | **6 130** | **0** | **4 087** | **54 304** | **0** | **54 304** |
| **Balance at 31 December 2020 (published)** | **2 001** | **2 100** | **33 615** | **6 959** | **6 193** | **0** | **4 071** | **54 939** | **0** | **54 939** |
| Adjustment | 0 | 0 | -588 | 0 | -63 | 0 | 16 | -635 | 0 | -635 |
| **Balance at 31 December 2020 (restated)** | **2 001** | **2 100** | **33 027** | **6 959** | **6 130** | **0** | **4 087** | **54 304** | **0** | **54 304** |
| ***Net profit*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***6 210*** | ***6 210*** | ***0*** | ***6 210*** |
| ***Total other comprehensive income*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| **Total comprehensive income** | **0** | **0** | **0** | **0** | **0** | **0** | **6 210** | **6 210** | **0** | **6 210** |
| Transfer of previous year's profit to retained earnings | 0 | 0 | 4 087 | 0 | 0 | 0 | -4 087 | 0 | 0 | 0 |
| ***Total contributions and distributions*** | ***0*** | ***0*** | ***4 087*** | ***0*** | ***0*** | ***0*** | ***-4 087*** | ***0*** | ***0*** | ***0*** |
| General reserve | 0 | 0 | -539 | 0 | 539 | 0 | 0 | 0 | 0 | 0 |
| ***Total other changes in equity*** | ***0*** | ***0*** | ***-539*** | ***0*** | ***539*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| **Balance at 31 January 2021** | **2 001** | **2 100** | **36 575** | **6 959** | **6 669** | **0** | **6 210** | **60 514** | **0** | **60 514** |

# 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, which is the immediate parent company of the Company: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 2021**:

| 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, Alpenstraße 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** |

There was no change in the ownership structure compared to 31 December 2020.

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.

The operating licences of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. were approved by the regulator, its activity includes 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, insurance brokerage as a tied (multi-) agent as well as capital market tied-agent activity in respect of mediation of government securities contracts. The operating licences of Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Kft. were approved by the regulator, its activity includes 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.

Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have been using the option of corporate tax group since 1 January 2019; this option is provided by Act LXXXI of 1996 on Corporate and Dividend Tax as from 2019. Fundamenta Értéklánc Kft. joined the group as of 1 January 2020. The group representative 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.

These consolidated financial statements were approved for issue by the Board of Directors on 22 February 2022.

## 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) 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 6.3 b).

### b) Use of the IFRS 9 model to determine expected credit loss (ECL)

Under IFRS 9, expected loss is assessed rather than incurred loss. For ECL calculations under IFRS 9, all contracts are classified into a Stage (Stage 1, Stage 2, Stage 3) as part of the rating process.

A transaction is classified into Stage 3 if it is in default, i.e., it meets any of the default criteria. Stage 3 transactions also represent the credit-impaired and non-performing category.

In such cases impairment relating to the transaction is calculated as follows:

ECL = Exposure * LGD* (1 –CR).

Contracts, where the credit risk has increased significantly, but which do not meet any default criteria are classified into Stage 2. (Related indicators are included in Note 6.4.) For Stage 2, lifetime ECL needs to be calculated as follows:

ECL = LEL = PD(1) * LGD(1) * EADD(1) +…+ PD(n) * LGD(n) * EADD(n)

For transactions classified into Stage 1, 12-month expected loss is calculated:

ECL = 12M EL = PD(1) * LGD(1) * EADD(1) +…+ PD(12) * LGD(12) * EADD(12)

The parameters necessary for the determination of ECL are calculated by the Group based on historical data; the method and results of the calculations are fully documented and are updated and revised annually.

Incorporation of forward-looking information based on IFRS 9 is described in Note 32.1/d (Forward-looking information). Furthermore, IFRS 9 allows to apply management overlay, if justified; for more details please refer to Note 32.1/d Coronavirus impacts.

### 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:

### 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 6.4.

### 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.

# 5. Measurement principles

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

# 6. Significant accounting policies

## 6.1. 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.

## 6.2. 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.

## 6.3. 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**

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.

#### Classification of financial liabilities

The Group measured all of its financial liabilities at amortised cost.

### 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.

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) Changes in respect of expected cash flows

#### Changes in expected 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 at fair value. 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 at fair value.

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.

## 6.4. 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, which are the following:

- Contracts without Initial Rate
- Contracts in default for more than 30 days
- Contracts in default for no more than 30 days where repayment method is not in line with contract – not disbursed in the month under review
- Contracts in default for fewer than 30 days, verification for housing purposes requested
- Contracts appearing on list of transactions that likely become problematic during Covid-19, based on historical data; list derived from probit model applied during IFRS 9 model revision
- Contracts in moratorium for more than 9 months
- Contracts in Moratorium 2+

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 Stage 3 portfolio is the same as the credit-impaired portfolio.

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.

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. (For a detailed description of incorporation of forward-looking information see Section "Forward-looking information" in Note 32.1 "Credit risk".)

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. 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 continued making their payments, but did not meet their contractual interest and principal payment obligations during the course of the moratorium, were automatically returned to the moratorium by the Group, regardless of what the reason for the non-payment 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 Group 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.

The Group classified into Stage 3 those customers in Moratorium 2+ who remained in the moratorium due to unemployment or reduction in income, while continued to carry in or classified into Stage 2 the other contracts in the moratorium, in accordance with the requirements of the applicable MNB circular.

**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.

The Group uses a standardised model to assess impairment for all products and segments.

**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 booked on interbank and central bank deposits by the Group if they expire after more than 4 working days following the given close date and the amount to be booked exceeds the significance threshold set in the accounting policies. 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, for provisions no individual assessment is performed.

**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 6.3 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.

## 6.5. 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.

## 6.6. Securities

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

## 6.7. 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.

## 6.8. 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.

## 6.9. 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) |
| --- | --- |
| Leasehold improvements | up to the term of the lease |
| Right-of-use assets | up to the term of the lease |
| 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 6.11.

### 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.

## 6.10. 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 6.11.

#### 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.

### 6.11. 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.

### 6.12. 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 6.9). 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 interest rate defined by Treasury 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 and leases out cars owned by the Group to sales agents.

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 6.3. c)) and impairment of financial assets (see Note 6.4) 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 6.9. d).

Operating leases are presented in Note 30.2.

## 6.13. 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.

## 6.14. 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.

## 6.15. 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.

## 6.16. 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.

A loan commitment is an irrevocable commitment of the Group.

The loan agreement enters into force on the date the signed loan agreement is received back; however, the date on which the agreement was sent is considered the start date of the loan agreement, therefore the Group has to make a credit facility available for the customer from the date on which the agreement was sent.

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

The Group recognises provisions for loan commitments; for further details see Note 6.4.

## 6.17. 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.

## 6.18. 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) 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 its amount limits the dividend that can be paid.

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.

## 6.19. 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 6.3 d).

## 6.20. 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.

In addition to the above, Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. is entitled to invoice commission to the partners on the financial and insurance products of partners mediated by the sales agents engaged by it under an engagement contract, on a monthly basis, after the month-end close. Furthermore, the sales agents are also entitled to invoice commission on these transactions.

## 6.21. Foreign exchange translation gains less losses

The foreign exchange translation gains less losses comprise the exchange differences (gains and losses) derived from changes in the exchange rate.

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

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

## 6.23. 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.

## 6.24. 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.

### 6.25. 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.

### 6.26. 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.

## 7. Application of new or amended standards and interpretations

The Group consistently applied the accounting policies set forth in Note 6 to all periods presented in the financial statements.

The following amendments became effective from 1 January 2021:

**COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).** The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. On 31 March 2021, in light of the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June 2022 (effective for annual periods beginning on or after 1 April 2021).

The application of the amendments did not have any impact on the right-of-use asset.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Company has elected not to early adopt Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16. The amendments have been applied from 1 January 2021.

Under these amendments, changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate. No immediate gain or loss is recognised. The same practical expedient exists for lease liabilities. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes result in a modification or derecognition gain or loss. If lease modifications are made in addition to those required by the IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including the changes required by the IBOR reform.

***Effect of IBOR reform*.** Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

The new standard will not affect the Company's consolidated financial statements.

## 8. New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Company has not early adopted.

***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

The new standard will not affect the Company's consolidated financial statements.

***Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).*** The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held, the amount of retained reinsurance contracts and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The new standard and the amendments will not affect the Company's consolidated financial statements.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

The amendments will not affect the Company's consolidated financial statements.

***Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).*** These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The Company is currently assessing the impact of the amendments on its financial statements.

***Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).***The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

The Company is currently assessing the impact of the amendments on its financial statements.

***Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).*** The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendments will not affect the Company's consolidated financial statements.

***Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Company is currently assessing the impact of the amendments on its financial statements.

***Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Company is currently assessing the impact of the amendments on its financial statements.

***Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).*** In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

The amendment will not affect the Company's consolidated financial statements.

# Notes to the financial statement items

## 9. Cash and cash equivalents

*Table 9.1. - Cash and cash equivalents*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| HUF current accounts held at MNB | 99 | 44 |
| Deposit accounts held at MNB and due within 3 months | 72 007 | 51 591 |
| HUF and FX current deposit accounts held at other credit institutions | 3 747 | 1 871 |
| Credit institution deposits with a maturity period less than 3 months | 1 050 | 4 650 |
| **Total cash and cash equivalents** | **76 903** | **58 156** |

Due to the changed interest rate environment, no new securities were purchased to replace the maturing securities, the money so generated was deposited in short-term MNB and interbank deposits, thus increasing the reporting-year amount of cash and cash equivalents.

The credit rating classification of cash and cash equivalents is included in Note 32.

## 10. Securities

*Table 10.1. - Securities*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Investment securities measured at amortised cost | 103 381 | 140 651 |
| Impairment allowance (-) | -95 | -127 |
| **Total securities** | **103 286** | **140 524** |

In the reporting year securities decreased owing to maturity and sale.

As at the end of the reporting year and the previous year, securities include Hungarian government bonds, discounted Treasury bills and mortgage bonds.

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

| (HUF million) | 31.12.2021 |
|---|---|
| 2022/A MÁK | 6 146 |
| 2022/B MÁK | 2 124 |
| 2023/A MÁK | 12 689 |
| 2023/C MÁK | 3 543 |
| 2024/B MÁK | 6 744 |
| 2024/C MÁK | 25 257 |
| 2025/B MÁK | 10 874 |
| 2025/C MÁK | 2 963 |
| 2026/D MÁK | 1 432 |
| 2027/A MÁK | 10 525 |
| 2028/A MÁK | 11 288 |
| 2030/A MÁK | 909 |
| 2031/A MÁK | 8 792 |
| **Total debt instruments** | **103 286** |

*Table 10.3. - Securities measured at amortised cost - previous 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** |

## 11. Receivables from customers

*Table 11.1. - Overview of receivables from customers*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Receivables from customers measured at amortised cost | 517 761 | 483 689 |
| Impairment allowance (-) | -8 728 | -7 027 |
| **Total receivables from customers** | **509 033** | **476 662** |

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

| (HUF million) | 31.12.2021 Gross value | 31.12.2021 Expected credit loss | 31.12.2021 Carrying amount | 31.12.2020 Gross value | 31.12.2020 Expected credit loss | 31.12.2020 Carrying amount |
|---|---|---|---|---|---|---|
| Bridging loans | 110 114 | -479 | 109 635 | 105 245 | -278 | 104 967 |
| Immediate bridging loans | 352 475 | -7 745 | 344 730 | 322 976 | -6 281 | 316 695 |
| Housing loans | 54 954 | -504 | 54 450 | 55 290 | -468 | 54 822 |
| Other receivables from customers | 218 | 0 | 218 | 178 | 0 | 178 |
| **Total** | **517 761** | **-8 728** | **509 033** | **483 689** | **-7 027** | **476 662** |

## 12. Other financial receivables

*Table 12.1. - Other financial receivables*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Lease receivables | 411 | 449 |
| Trade receivables | 64 | 76 |
| Accrued commission income | 350 | 303 |
| Receivables from sales agents | 16 | 24 |
| Security deposit | 297 | 294 |
| Other | 63 | 45 |
| Impairment allowance (-) | -43 | -31 |
| **Total other financial receivables** | **1 158** | **1 160** |

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) | Leasehold improvements | Office equipment | Motor vehicles | Assets under construction | Total |
|---|---|---|---|---|---|
| **Gross value** | | | | | |
| ***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*** |
| ***Balance at 1 January 2021*** | ***1 882*** | ***3 871*** | ***1 137*** | ***0*** | ***6 890*** |
| Installation | 45 | 332 | 335 | -712 | **0** |
| Acquisitions | 0 | 0 | 0 | 715 | **715** |
| Disposals | -133 | -121 | -14 | 0 | **-268** |
| ***Balance at 31 December 2021*** | ***1 794*** | ***4 082*** | ***1 458*** | ***3*** | ***7 337*** |
| **Depreciation and impairment** | | | | | |
| ***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*** |
| ***Balance at 1 January 2021*** | ***-533*** | ***-2 055*** | ***-311*** | ***0*** | ***-2 899*** |
| Depreciation for the year | -197 | -540 | -153 | 0 | **-890** |
| Impairment recognised in profit or loss | 0 | 0 | -1 | 0 | **-1** |
| Disposals | 90 | 112 | 5 | 0 | **207** |
| ***Balance at 31 December 2021*** | ***-640*** | ***-2 483*** | ***-460*** | ***0*** | ***-3 583*** |
| **Net value** | | | | | |
| ***Balance at 31 December 2020*** | ***1 349*** | ***1 816*** | ***826*** | ***0*** | ***3 991*** |
| ***Balance at 31 December 2021*** | ***1 154*** | ***1 599*** | ***998*** | ***3*** | ***3 754*** |

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 533 million as at 31 December 2021 (31.12.2020: HUF 310 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 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*** |
| ***Balance at 1 January 2021*** | ***2 385*** | ***2 091*** | ***8 527*** | ***494*** | ***13 497*** |
| Installation | 414 | 142 | 746 | -1 302 | 0 |
| Acquisitions | 0 | 0 | 0 | 1 545 | 1 545 |
| Disposals | -15 | -149 | -52 | 0 | -216 |
| ***Balance at 31 December 2021*** | ***2 784*** | ***2 084*** | ***9 221*** | ***737*** | ***14 826*** |
| **Amortisation and impairment** | | | | | |
| ***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*** |
| ***Balance at 1 January 2021*** | ***-696*** | ***-1 482*** | ***-3 193*** | ***0*** | ***-5 371*** |
| Amortisation for the year | -311 | -181 | -867 | 0 | -1 359 |
| Disposals | 14 | 133 | 46 | 0 | 193 |
| ***Balance at 31 December 2021*** | ***-993*** | ***-1 530*** | ***-4 014*** | ***0*** | ***-6 537*** |
| **Net value** | | | | | |
| ***Balance at 31 December 2020*** | ***1 689*** | ***609*** | ***5 334*** | ***494*** | ***8 126*** |
| ***Balance at 31 December 2021*** | ***1 791*** | ***554*** | ***5 207*** | ***737*** | ***8 289*** |

In the case of internally developed software, the acquisitions item 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. Intangible assets include devices used by the Group for administration, recording and calculation purposes in connection with its business activities. Intangible assets are tested for impairment annually, it was not necessary to account for an impairment in the current year or the previous year.

In 2021 research and development expenses booked totalled HUF 6 million (2020: HUF 36 million).

Contractual commitments of the Group related to future acquisitions of intangible assets amounted to HUF 484 million as at 31 December 2021 (31.12.2020: HUF 341 million).

## 15. Other assets

*Table 15.1. - Other assets*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Inventories | 79 | 97 |
| Accruals and deferrals | 1 091 | 503 |
| Advances | 83 | 73 |
| Other items similar to tax | 887 | 1 076 |
| Further other assets | 329 | 288 |
| **Total other assets** | **2 469** | **2 037** |

In 2020 other items similar to tax included the one-off special tax for financial institutions levied on the banking sector 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) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| ***Retail customers:*** | | |
| Payments by customers and interest thereon | 491 122 | 483 552 |
| Government grant and interest thereon | 115 062 | 116 556 |
| Other liabilities to customers | 742 | 531 |
| ***Multi-occupancy buildings, cooperatives:*** | | |
| Payments by customers and interest thereon | 27 362 | 25 665 |
| Government grant and interest thereon | 5 964 | 5 994 |
| Other liabilities to customers | 36 | 27 |
| **Total liabilities to customers** | **640 288** | **632 325** |

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) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Lease liabilities | 6 017 | 7 666 |
| Liabilities from commissions to sales agents | 134 | 143 |
| Trade liabilities | 79 | 217 |
| Deposits | 63 | 61 |
| Dividend payment liability to founders | 0 | 557 |
| Other | 643 | 553 |
| **Total other financial liabilities** | **6 936** | **9 197** |

Information on leases is included in Note 30.2.

In 2020 and 2021 MNB imposed restrictions on dividend payment. After the restriction was lifted, unpaid dividends approved previously were paid.

## 18. Provisions

*Table 18.1. - Balance of provisions*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Provision for litigations | 0 | 2 |
| Provision for retention commissions | 367 | 337 |
| Provision for quality commission bonus | 129 | 124 |
| Provision based on remuneration policy | 205 | 228 |
| Provision for other liabilities | 316 | 350 |
| Provision for Autóbank programme | 4 | 5 |
| Provision for the Bonus Bank | 31 | 60 |
| Provision for line of credit | 100 | 77 |
| **Total balance of provisions** | **1 152** | **1 183** |

The table below presents changes to provisions recognised based on IAS 37 and IFRS 9:

*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 based on remuneration policy | Provision for other liabilities | Provision for Autóbank programme | Provision for the Bonus Bank | Provision for line of credit | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Balance at 1 January 2020*** | ***5*** | ***10*** | ***355*** | ***117*** | ***164*** | ***303*** | ***10*** | ***102*** | ***102*** | ***1 168*** |
| Provisions recognised during the period | 2 | 0 | 27 | 45 | 64 | 71 | 2 | 0 | 719 | **930** |
| Provisions used during the period | 0 | -10 | -45 | -38 | 0 | -24 | -7 | -42 | -744 | **-910** |
| Provisions released during the period | -5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **-5** |
| ***Balance at 31 December 2020*** | ***2*** | ***0*** | ***337*** | ***124*** | ***228*** | ***350*** | ***5*** | ***60*** | ***77*** | ***1 183*** |
| Provisions recognised during the period | 0 | 0 | 79 | 46 | 52 | 65 | 0 | 0 | 880 | **1 122** |
| Provisions used during the period | 0 | 0 | -49 | -41 | -75 | -99 | -1 | -29 | -857 | **-1 151** |
| Provisions released during the period | -2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **-2** |
| ***Balance at 31 December 2021*** | ***0*** | ***0*** | ***367*** | ***129*** | ***205*** | ***316*** | ***4*** | ***31*** | ***100*** | ***1 152*** |
| ***Non-current portion*** | ***0*** | ***0*** | ***186*** | ***68*** | ***205*** | ***101*** | ***0*** | ***31*** | ***0*** | ***591*** |
| ***Current portion*** | ***0*** | ***0*** | ***181*** | ***61*** | ***0*** | ***215*** | ***4*** | ***0*** | ***100*** | ***561*** |

## 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. 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.

## 18.3. 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.

The expected cash flow, the expected savings start dates and payments, the expected contract cancellations and as a result the expected commission bonus payments are forecast by the Group based on prior experience. The amount of the provision is the estimated amount of commission bonuses to be paid in the future for contracts already entered into force.

## 18.4. 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.

## 18.5. 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. No new amounts are recognised any more for this provision.

## 18.6. Provision based on remuneration policy

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.

## 18.7. Provision for other liabilities

Provision for other commitments comprises the following main items:

- In connection with the amendment to the Home Savings and Loans Act in October 2018, 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.

- If the customer is entitled to receive customer bonus and reach the end of the term of the contract, but has not yet given instructions relating to payment, the Company recognises a provision for the customer bonus due to the customer.

- 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.

## 18.8. Provision for credit losses

Further information is included in Note 6.4.

## 19. Other liabilities

*Table 19.1. - Other liabilities*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Accruals and deferrals | 401 | 305 |
| Cancelled government grant | 238 | 252 |
| Other liabilities related to employees | 818 | 560 |
| Payment liabilities to tax authorities | 122 | 103 |
| Further other liabilities | 4 | 15 |
| **Total other liabilities** | **1 583** | **1 235** |

As a result of the loan moratorium, in 2020 the indicators defined at Company level fell short of the planned figures, therefore lower amount of annual bonus was accrued. This was no longer necessary in the reporting year, as the indicators were in line with plans.

## 20. Equity

### 20.1. Share capital

The Group's official, issued, called and fully paid share capital comprises 200,100 (31 December 2020: 200,100) shares, each with a nominal value of HUF 10,000 (31 December 2020: 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 2021 (31. December 2020: HUF 2,100 million). 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.

In 2020 HUF 2,500 million was recognised as an item decreasing retained earnings, owing to the dividend payment.

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

### 20.4. Statutory reserves

#### Settlement reserve

Rules relating to making and using settlement reserves are described in Note 6.18 e).

No settlement reserve was made in the reporting year.

#### General reserve

Rules relating to making and using general reserve are described in Note 6.18 e).

In the reporting year the Group recognised HUF 539 million general reserve from retained earnings (2020 restated: HUF 229 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) | 2021 | 2020 |
|---|---|---|
| Interest income from cash and cash equivalents | 870 | 177 |
| Interest income from securities | 3 468 | 4 564 |
| *Interest income from government bonds* | *3 452* | *4 507* |
| *Interest income from discounted Treasury bills* | *7* | *47* |
| *Interest income from mortgage bonds* | *9* | *10* |
| Interest income from receivables from customers | 26 047 | 24 827 |
| *Interest income from immediate bridging loans* | *18 094* | *16 928* |
| *Interest income from bridging loans* | *5 139* | *5 027* |
| *Interest income from housing loans* | *2 814* | *2 872* |
| Interest income from lease transactions | *13* | *8* |
| **Total interest income** | **30 398** | **29 576** |

The interest income presented in the above table was accounted for using the effective interest method. Interest income includes 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; this reduced interest income by HUF 25 million (2020: HUF 64 million).

Due to the changed interest rate environment, no new securities were purchased to replace the maturing securities, the money so generated was deposited in short-term MNB and interbank deposits, thus decreasing interest income from securities and increasing interest income from cash and cash equivalents.

## 21.2. Interest expense

*Table 21.2.1. - Interest expense*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Interest expense on liabilities to customers | -7 300 | -7 024 |
| *Interest expense paid on amounts paid by customers* | *-6 048* | *-5 731* |
| *Interest expense attributable to government grant* | *-1 252* | *-1 293* |
| Negative interest income on financial assets | *-10* | *-2* |
| Interest expense on leases | *-177* | *-244* |
| **Total interest expense** | **-7 487** | **-7 270** |

Interest expense rose due to the higher volume of deposits as well as to costumer bonuses accounted for continually as part of effective interest.

# 22. Net fee and commission income/expense
## 22.1. Fee and commission income

*Table 22.1.1. - Fee and commission income*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Fee and commission income from home savings transactions | 2 161 | 2 192 |
| Fee income from loans | 313 | 244 |
| Fee income from deposits | 1 848 | 1 948 |
| Other fee and commission income | 1 463 | 1 003 |
| **Total fee and commission income** | **3 624** | **3 195** |

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

## 22.2. Fee and commission expense

*Table 22.2.1. - Fee and commission expense*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Commission expense on loans | -152 | -100 |
| Commission expense on deposits | -634 | -497 |
| Other fee and commission expenses | -587 | -483 |
| Commission expense on securities transactions | -11 | -13 |
| Commission expense on mediation of government securities | -64 | -60 |
| Commission expense on payment transactions | -370 | -401 |
| **Total fee and commission expense** | **-1 818** | **-1 554** |

# 23. Foreign exchange translation gains less losses

*Table 23.1. - Foreign exchange translation gains less losses*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Foreign exchange differences | 79 | -473 |
| **Total foreign exchange translation gains less losses** | **79** | **-473** |

In 2020 the devaluation of the Hungarian forint was 10%, which was only partly hedged. By contrast, in the reporting year the Company reduced significantly the open FX position and did everything to take advantage of the major fluctuations of the forint.

## 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) | 2021 | 2020 |
|---|---|---|
| Net gain arising from derecognition of securities measured at amortised cost | 917 | 761 |
| *Realised gains from derecognition of securities* | *1 134* | *771* |
| *Realised losses from derecognition of securities* | *-217* | *-10* |
| **Total net gain arising from derecognition of financial assets and liabilities measured at amortised cost** | **917** | **761** |

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. Of the gain realised in the reporting year, HUF 1,121 million arose on government bonds and HUF 13 million related to discounted treasury bills, while the total amount of the HUF 217 million loss realised is attributable to government bonds. The gain/loss recognised in 2020 is also represent amounts realised on derecognition of Hungarian government bonds and discounted treasury bills.

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.

Further sales were also made in 2021 that overall had no impact on the 2021 profit, but in gross terms involved capital gain/loss; however, in every case such sales affected only securities with a remaining term less than 1 year, therefore the only limitation contained in the accounting policies for the transactions concerned is that a significant part (more than 90%) of the remaining nominal cash flows should be recovered. During these sales more than 98% of the remaining nominal cash flows were realised even at the level of individual transactions, thus the transactions complied wit the rules of the applied business model.

## 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) | 2021 | 2020 |
|---|---|---|
| Impairment of receivables from customers and reversal thereof | -1 504 | -2 116 |
| Impairment of securities and reversal thereof | -9 | -79 |
| Impairment of other financial receivables and reversal thereof | -26 | -14 |
| Changes in provision for loan commitments | -23 | 25 |
| **Total changes in impairment of financial assets and in credit provisions** | **-1 562** | **-2 184** |

In 2020, using a conservative approach, a higher amount of impairment was recognised for expected losses of the loan moratorium, therefore the changes in 2021 affecting the loan moratorium did not require the accounting for further significant impairment.

*Table 25.2. - Impairment of receivables from customers and reversal thereof*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Increase due to origination | -613 | -222 |
| Further amounts recognised | -4 121 | -4 797 |
| Release | 2 380 | 2 444 |
| Decrease due to derecognition | 844 | 453 |
| Write-off/forgiveness | 6 | 6 |
| **Total impairment of receivables from customers and reversal thereof** | **-1 504** | **-2 116** |

## 26. Other operating income

*Table 26.1. - Other operating income*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Income from damages | 33 | 22 |
| Income from training activities | 21 | 23 |
| Income from fees paid for the use of tablets, cars, offices | 79 | 66 |
| Tax refunds | 6 | 21 |
| Gain on sale of property, plant and equipment | 5 | 3 |
| Gain on sale of inventories (Fundamenta magazine, other inventories) | 16 | 49 |
| Gain related to lease modifications | 231 | 1 |
| Miscellaneous income | 115 | 95 |
| **Total other operating income** | **506** | **280** |

Miscellaneous income includes gain on the derecognition of right-of-use assets and lease liabilities related to leased office areas that were returned in 2021, which is also the reason for the increase compared to the previous year.

## 27. Other operating expenses

*Table 27.1. - Other operating expenses*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| NDIF annual fee, fee to the Resolution Fund | -668 | -521 |
| Special tax for financial institutions (PY special tax for credit institutions) | -1 231 | -1 081 |
| Other expenses due to tax | -36 | -26 |
| Impairment booked on intangible assets, plant, equipment, vehicles and other assets | -1 | 0 |
| Loss on sale of property, plant and equipment | 0 | -1 |
| Miscellaneous expenses | -59 | -155 |
| **Total other operating expenses** | **-1 995** | **-1 784** |

## 28. Operating costs

*Table 28.1. - Operating costs*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Personnel expenses | -5 994 | -5 360 |
| Material-type expenses | -5 164 | -4 528 |
| Depreciation/ Amortisation | -3 139 | -3 048 |
| **Total operating costs** | **-14 297** | **-12 936** |

*Table 28.2. - Personnel expenses*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Wage costs | -4 760 | -4 242 |
| Taxes and contributions | -974 | -831 |
| Other | -260 | -287 |
| **Total personnel expenses** | **-5 994** | **-5 360** |

Year-end headcount as at 31 December 2021 was 703 (31 December 2020: 667). Of the amount of taxes and contributions, social contribution tax amounted to HUF 720 million in 2021 (2020: HUF 692 million).

*Table 28.3. - Material-type expenses*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Office stationery | -1 392 | -1 193 |
| Building maintenance costs | -162 | -190 |
| Contributions and fees | -134 | -124 |
| Expenses of hired personnel | -20 | -7 |
| Advisory services | -394 | -449 |
| IT costs | -1 755 | -1 503 |
| Rentals | -318 | -238 |
| PR/marketing costs | -535 | -381 |
| Authorities | -125 | -190 |
| Other costs | -329 | -253 |
| **Total material-type expenses** | **-5 164** | **-4 528** |

*Table 28.4. - Depreciation/ Amortisation*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Property, plant and equipment | -890 | -835 |
| Intangible assets | -1 359 | -1 201 |
| Right-of-use assets | -890 | -1 012 |
| **Total** | **-3 139** | **-3 048** |

## 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) | 2021 | 2020 (restated) |
|---|---|---|
| ***Current income tax*** | | |
| Income tax on profit for the year | -1 249 | -1 467 |
| **Total current income tax (expense (+)/ income (-))** | **-1 249** | **-1 467** |
| ***Deferred tax expense*** | | |
| Origination and reversal of temporary differences | -175 | 329 |
| **Total deferred tax expense (+) / income (-)** | **-175** | **329** |
| **Total income tax** | **-1 424** | **-1 138** |

### 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 2021 (31 December 2020: HUF 688 million). The Group considers this deferred tax liability as non-current.

## 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) | 2021 | | 2020 (restated) | |
|---|---|---|---|---|
| | % | Amount | % | Amount |
| Profit before tax | | 7 634 | | 5 225 |
| Tax calculated using the Company's domestic tax rate | -9,00% | -687 | -9,00% | -470 |
| Local tax and innovation contribution | -10,59% | -809 | -14,35% | -750 |
| Tax effect of permanent differences | 0,95% | 73 | 1,29% | 68 |
| Transfer of tax difference due to transition | 0,00% | 0 | 0,10% | 5 |
| Tax effect of recognition of previously unrecognised tax losses | 0,23% | 18 | 0,33% | 17 |
| Adjustments for prior years | -0,01% | 0 | 1,17% | 61 |
| Other | -0,25% | -19 | -1,30% | -68 |
| **Total income tax** | **-18,65%** | **-1 424** | **-21,78%** | **-1 138** |

## 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 Group 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 2018, while in 2019 the Group applied for the use of the option to calculate such levies in accordance with Hungarian accounting rules. Thus, according to original plans, 2020 would have been the first year when the tax base would have been calculated under IFRS, therefore these tax assets would have been used in 2020 and the two following years. In 2021 the treatment of the tax difference due to transition related to the business tax and innovation contribution was revised by the Group. As a result of the revision the Group determined, that based on the provisions of the law, the whole amount of the tax difference due to transition should have been used in the tax in 2018, the year of transition, i.e. the asset should not have been carried forward to 2020. Therefore the Group re-calculated the 2020 business tax and innovation contribution, and the whole amount recognised as deferred tax asset related to the tax difference due to transition was derecognised. The re-assessment of the taxes had also a reducing effect in respect of corporation tax, as the local business tax and innovation contribution accounted for as surplus reduced the base of the corporation tax. The derecognition of the tax asset due to transition caused the change in the balance of deferred tax; as at 31 December 2021, following the correction of the error, deferred tax liabilities total HUF 344 million.

Disclosures related to the correction of the prior-period error are included in Note 37.

*Table 29.4.1. - Movement in deferred tax balances*

| (HUF million) | Net balance at 01.01.2021 | Recognised in profit or loss | Recognised in other comprehensive income | Net balance at 31.12.2021 | | |
|---|---|---|---|---|---|---|
| | | | | Net | Deferred tax assets | Deferred tax liabilities |
| Property, plant and equipment; intangible assets | 34 | -18 | 0 | 16 | 24 | -8 |
| Loan transaction cost | 122 | -8 | 0 | 114 | 114 | 0 |
| Deposit transaction cost | 1 000 | -160 | 0 | 840 | 840 | 0 |
| Allowance for expected credit losses | 2 | 0 | 0 | 2 | 2 | 0 |
| Settlement reserve | -688 | 0 | 0 | -688 | -688 | 0 |
| Other provisions | 105 | 0 | 0 | 105 | 102 | 3 |
| Other | -61 | 11 | 0 | -50 | -50 | 0 |
| **Tax assets (+) / Tax liabilities (-)** | **514** | **-175** | **0** | **339** | **344** | **-5** |

| (HUF million) | Net balance at 01.01.2020 (restated) | Recognised in profit or loss (restated) | Recognised in other comprehensive income | Net balance at 31.12.2020 (restated) | | |
|---|---|---|---|---|---|---|
| | | | | Net | Deferred tax assets | Deferred tax liabilities |
| Property, plant and equipment; intangible assets | -33 | 67 | 0 | 34 | 34 | 0 |
| Securities | -1 | 1 | 0 | 0 | 0 | 0 |
| Loan transaction cost | 78 | 44 | 0 | 122 | 122 | 0 |
| Deposit transaction cost | 931 | 69 | 0 | 1 000 | 1 000 | 0 |
| Allowance for expected credit losses | 7 | -5 | 0 | 2 | 2 | 0 |
| Settlement provision | -688 | 0 | 0 | -688 | -688 | 0 |
| Other provisions | 78 | 27 | 0 | 105 | 105 | 0 |
| Other | -187 | 126 | 0 | -61 | -61 | 0 |
| **Tax assets (+) / Tax liabilities (-)** | **185** | **329** | **0** | **514** | **514** | **0** |

*Table 29.4.2. - Changes in the balance of current income tax assets*

| (HUF million) | Opening balance at 01.01.2021 (restated) | Recognised in profit or loss | Payments | Transfers | Closing balance at 31.12.2021 |
|---|---|---|---|---|---|
| Corporation tax | 929 | 440 | 450 | 0 | 939 |
| Local business tax | 229 | 0 | 0 | -148 | 81 |
| **Current income tax assets** | **1 158** | **440** | **450** | **-148** | **1 020** |

*Table 29.4.3. - Changes in the balance of current income tax liabilities*

| (HUF million) | Opening balance at 01.01.2021 (restated) | Recognised in profit or loss | Payments | Transfers | Closing balance at 31.12.2021 |
|---|---|---|---|---|---|
| Innovation contribution | 21 | 106 | 0 | 0 | 127 |
| Local business tax | 4 | 703 | 244 | 148 | 315 |
| **Current income tax liabilities** | **25** | **809** | **244** | **148** | **442** |

## 30. Other disclosures

### 30.1. Group structure

#### Fundamenta-Lakáskassza Pénzügyi Közvetítő Korlátolt Felelősségű Társaság

The parent company is the sole owner (31 December 2020: 100%) of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. The carrying amount of the interest as of 31 December 2021 was HUF 459 million (31 December 2020: HUF 459 million), no impairment was recognised.

Equity and reserves of the subsidiary:

*Table 30.1.1. - Equity and reserves of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft.*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Registered capital | 150 | 150 |
| Capital reserve | 306 | 306 |
| Retained earnings | 1 939 | 1 650 |
| Profit for the year | 123 | 1 089 |
| **Total equity components of the subsidiary** | **2 518** | **3 195** |

#### 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 2021 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 Ingatlanközvetítő és Szolgáltató Kft.*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Registered capital | 50 | 50 |
| Capital reserve | 850 | 850 |
| Retained earnings | -266 | -79 |
| Loss for the year | -196 | -187 |
| **Total equity components of the subsidiary** | **438** | **634** |

### 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 options or escalation clauses. The majority of the lease contracts contain extension options, which are mostly exercisable only by the Group. Lease contracts related to car leases contain termination options.

The accounting policy on leases is included in Note 6.12.

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

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Property, plant and equipment owned | 3 754 | 3 991 |
| Right-of-use assets, except for investment property | 4 664 | 5 941 |
| **Total** | **8 418** | **9 932** |

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

| (HUF million) | Property | Vehicles | Total |
|---|---|---|---|
| ***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 1 January 2021*** | ***5 823*** | ***118*** | ***5 941*** |
| Additions | 129 | 13 | 142 |
| Other decrease | -526 | -3 | -529 |
| Depreciation charge for the year | -788 | -102 | -890 |
| ***Balance at 31 December 2021*** | ***4 638*** | ***26*** | ***4 664*** |

Other decrease in 2021 mainly includes the derecognition of right-of-use assets related to the areas returned to the lessor. The same line item in 2020 included the derecognistion of right-of-use assets of leased areas that were sub-leased under financial lease. A part of the office areas that were no longer needed due to the new working schedule introduced as a result of the pandemic (Fundarend 2.0) was returned to the lessor, while another part was sub-leased through Fundamenta Értéklánc Kft.

Table 30.2.3. - Changes in lease liabilities

| (HUF million) | Property | Vehicles | Total |
|---|---|---|---|
| ***Balance at 1 January 2021*** | ***7 550*** | ***116*** | ***7 666*** |
| Additions | 130 | 3 | 133 |
| Lease payments | -1 138 | -98 | -1 236 |
| Effect of modification | -753 | 7 | -746 |
| Other changes | 196 | 4 | 200 |
| ***Balance at 31 December 2021*** | ***5 985*** | ***32*** | ***6 017*** |

See Table 32.2.3 for the maturity analysis of lease liabilities.

Table 30.2.4. - Fixed and variable lease payments

| (HUF million) | | | 31.12.2021 |
|---|---|---|---|
| | Fixed cash outflows | Variable cash outflows | Total |
| Contracts containing fixed lease payments | 118 | 0 | 118 |
| Contracts containing only variable lease payments | 0 | 1 118 | 1 118 |
| **Total** | **118** | **1 118** | **1 236** |

| (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** |

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

*Table 30.2.5. - Disclosures related to the statement of profit or loss and the statement of cash flows*

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Interest on lease liabilities | -177 | -244 |
| Variable lease payments not included in the measurement of lease liabilities | -277 | -230 |
| Income from sub-leasing right-of-use assets | 69 | 57 |
| Expenses relating to short-term leases | -37 | 0 |
| Total cash outflow for leases | -1 236 | -1 006 |

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 'Interest 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 'Operating 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 30.2.6. - Lease income as lessor*

| (millió Ft) | 2021 | 2020 |
|---|---|---|
| ***Finance lease*** | | |
| Profit from sales | 0 | 22 |
| Finance income on the net investment in the lease | 16 | 30 |
| ***Operating lease*** | | |
| Lease income | 75 | 64 |

*Table 30.2.7. - Lessor operating leases*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Less than one year | 101 | 74 |
| One to two years | 114 | 75 |
| Two to three years | 110 | 82 |
| Three to four years | 137 | 87 |
| Four to five years | 141 | 91 |
| **Total undiscounted lease payments** | **603** | **409** |

*Table 30.2.8. - Lessor finance leases*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Less than one year | 67 | 63 |
| One to two years | 65 | 63 |
| Two to three years | 65 | 63 |
| Three to four years | 65 | 63 |
| Four to five years | 65 | 63 |
| More than five years | 130 | 192 |
| **Total undiscounted lease payments receivable** | **457** | **507** |
| **Unearned finance income** | **46** | **58** |
| **Net investment in the lease** | **411** | **449** |

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 (they are considered other related parties) 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 company 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 |
|---|---|---|---|
| | | | 31.12.2021 |
| ***Assets*** | | | |
| Receivables from customers | 0 | 0 | 11 |
| ***Liabilities*** | | | |
| Liabilities to customers | 0 | 19 | 18 |
| Provisions | 0 | 206 | 0 |
| Other liabilities | 0 | 67 | 0 |

| (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 |

*Table 30.3.2. - Related party transactions*

| (HUF million) | Parent company | Key management personnel of the Company or its parent company | Other related parties |
|---|---|---|---|
| | | | 2021 |
| ***Comprehensive income*** | | | |
| Interest income | 0 | 0 | 1 |
| Personnel expenses | 0 | -422 | 0 |
| Material-type expenses | 0 | -33 | 0 |

| (HUF million) | Parent company | Key management personnel of the Company or its parent company | Other related parties |
|---|---|---|---|
| | | | 2020 |
| ***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 |

In the above tables, balances and transactions are presented in respect of the Group's products and in relation to remunerations.
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) | 2021 | 2020 |
|---|---|---|
| Short-term employee benefits | 349 | 335 |
| Other long-term benefits | 106 | 82 |
| **Total** | **455** | **417** |

Remuneration of key management personnel includes their wages, in-kind benefits and related taxes. The benefits as per IAS 24.17 b and d are not relevant to the Group.

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

| (HUF million) | 2021 | 2020 |
|---|---|---|
| Members of the BoD | 450 | 412 |
| Supervisory Board members | 5 | 5 |
| **Total** | **455** | **417** |

## 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. The amount of provision recognised owing to legal disputes totalled HUF 2 million as of 31 December 2020; this was released in the reporting year and no new provision was recognised.(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. (See Note 6.4).

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 2021 the Group has HUF 159 million (2020: 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.

As of 1 January 2022 the Company returned 430.79 $m^2$ office area and 5 parking places to the lessor, Green Urban Elegant Kft. Previously a significant part of the office area returned and the 5 parking places were sub-leased by the Company through Fundamenta Értéklánc Kft. The transaction reduces the gross leased office area by 5.78% to 7,022.03 $m^2$ and the number of leased parking places by 4.55% to 105.

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 and CIB BT 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 Loan Decision group is responsible for reviewing issues that exceed the powers of the Loan Assessment department, or which require an individual procedure for other reasons, and for proposing decisions.
- 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 Loan Decision group of the Strategic Risk Management Directorate in accordance with the rules set forth in the General Underwriting Policy. For loan placements in excess of the amount recorded in the General Underwriting 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). Over and above this, bridging loans may be granted from external funding and/or from equity while complying with prudential provisions applicable to the Group.

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 Operative 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 Process Organisation department, the head of the Strategic Risk Management Directorate and the heads of the Product Advisor department and the Product Management department, 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 interest rate risk in the banking book;
- 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;
- providing information to the Board of Directors on a regular basis relating to the moratorium.

### b) Credit quality analysis

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

The definitions for 12-month expected credit loss, lifetime expected credit loss and credit-impaired financial assets are contained in Note 6.4.
The carrying amounts in the following table also represent the Group's maximum exposure to credit risk on these assets.

*Table 32.1.1. - Classification by credit quality category*

| | | | | 31.12.2021 |
|---|---|---|---|---|
| **(HUF million)** | **12-month expected credit loss** | **Lifetime expected credit loss Not credit-impaired** | **Lifetime expected credit loss Credit-impaired** | **Total** |
| **Receivables from customers at amortised cost** | | | | |
| ***Bridging loans*** | | | | |
| *Arrears of 0 day* | *90 377* | *17 819* | *0* | ***108 196*** |
| *Arrears for no more than 1 month* | *212* | *413* | *0* | ***625*** |
| *Arrears for no more than 2 months* | *0* | *181* | *0* | ***181*** |
| *Arrears for no more than 3 months (not default)* | *0* | *46* | *0* | ***46*** |
| *More than 3 months, not significant* | *0* | *60* | *0* | ***60*** |
| *More than 90 days but not more than 3 months, significant* | *0* | *0* | *6* | ***6*** |
| *More than 3 months, significant* | *0* | *0* | *67* | ***67*** |
| *Restructured* | *0* | *0* | *152* | ***152*** |
| *Objective evidence* | *0* | *0* | *741* | ***741*** |
| *Associated due to Basel* | *0* | *0* | *32* | ***32*** |
| *Cancelled* | *0* | *0* | *10* | ***10*** |
| *Persistence* | *0* | *0* | *24* | ***24*** |
| *Watch list due to associated contract* | *0* | *0* | *191* | ***191*** |
| ***Immediate bridging loans*** | | | | |
| *Arrears of 0 day* | *251 152* | *83 140* | *0* | ***334 292*** |
| *Arrears for no more than 1 month* | *1 107* | *2 531* | *0* | ***3 638*** |
| *Arrears for no more than 2 months* | *0* | *1 564* | *0* | ***1 564*** |
| *Arrears for no more than 3 months (not default)* | *0* | *920* | *0* | ***920*** |
| *More than 3 months, not significant* | *0* | *632* | *0* | ***632*** |
| *More than 90 days but not more than 3 months, significant* | *0* | *0* | *74* | ***74*** |
| *More than 3 months, significant* | *0* | *0* | *905* | ***905*** |
| *Restructured* | *0* | *0* | *2 661* | ***2 661*** |
| *Objective evidence* | *0* | *0* | *5 672* | ***5 672*** |
| *Associated due to Basel* | *0* | *0* | *344* | ***344*** |
| *Cancelled* | *0* | *0* | *878* | ***878*** |
| *Persistence* | *0* | *0* | *289* | ***289*** |
| *Watch list due to associated contract* | *0* | *0* | *606* | ***606*** |
| ***Housing loans*** | | | | |
| *Arrears of 0 day* | *43 236* | *10 444* | *0* | ***53 680*** |
| *Arrears for no more than 1 month* | *116* | *290* | *0* | ***406*** |

| | | | | |
|---|---|---|---|---|
| *Arrears for no more than 2 months* | *0* | *208* | *0* | ***208*** |
| *Arrears for no more than 3 months (not default)* | *0* | *24* | *0* | ***24*** |
| *More than 3 months, not significant* | *0* | *21* | *0* | ***21*** |
| *More than 3 months, significant* | *0* | *0* | *58* | ***58*** |
| *Restructured* | *0* | *0* | *160* | ***160*** |
| *Objective evidence* | *0* | *0* | *263* | ***263*** |
| *Associated due to Basel* | *0* | *0* | *20* | ***20*** |
| *Cancelled* | *0* | *0* | *33* | ***33*** |
| *Persistence* | *0* | *0* | *23* | ***23*** |
| *Watch list due to associated contract* | *0* | *0* | *59* | ***59*** |
| **Total gross value** | **386 200** | **118 293** | **13 268** | **517 761** |
| *Impairment allowance* | *-2 095* | *-1 389* | *-5 244* | ***-8 728*** |
| **Total net carrying amount** | **384 105** | **116 904** | **8 024** | **509 033** |

| | | | | |
|---|---|---|---|---|
| **Cash and cash equivalents at amortised cost** | | | | |
| *No rating* | *3 237* | *0* | *0* | ***3 237*** |
| *BBB* | *73 666* | *0* | *0* | ***73 666*** |
| **Total gross value** | **76 903** | **0** | **0** | **76 903** |
| **Total net carrying amount** | **76 903** | **0** | **0** | **76 903** |
| **Securities that are debt instruments, at amortised cost** | | | | |
| *No rating* | *103 381* | *0* | *0* | ***103 381*** |
| **Total gross value** | **103 381** | **0** | **0** | **103 381** |
| *Impairment allowance* | *-95* | *0* | *0* | ***-95*** |
| **Total net carrying amount** | **103 286** | **0** | **0** | **103 286** |
| **Other financial receivables - leases** | | | | |
| *Number of days past due: 0-30* | *410* | *0* | *0* | ***410*** |
| **Total gross value** | **410** | **0** | **0** | **410** |
| *Impairment allowance* | *-12* | *0* | *0* | ***-12*** |
| **Total net carrying amount** | **398** | **0** | **0** | **398** |
| **Other financial receivables - other** | | | | |
| *Number of days past due: 0-30* | *0* | *721* | *0* | ***721*** |
| *Number of days past due: 31-90* | *0* | *10* | *0* | ***10*** |
| *Number of days past due: 91-* | *0* | *0* | *60* | ***60*** |
| **Total gross value** | **0** | **731** | **60** | **791** |
| *Impairment allowance* | *0* | *-11* | *-20* | ***-31*** |
| **Total net carrying amount** | **0** | **720** | **40** | **760** |
| **Loan commitments** | | | | |
| *Arrears of 0 day* | *9 823* | *0* | *0* | ***9 823*** |
| *Arrears for no more than 1 month* | *203* | *0* | *0* | ***203*** |
| *Arrears for no more than 2 month* | *93* | *0* | *0* | ***93*** |
| *Arrears for no more than 3 months (not default)* | *51* | *0* | *0* | ***51*** |
| *Arrears for more than 90 days but not more than 3 months, significant* | *0* | *0* | *120* | ***120*** |
| *Watch list due to associated contract* | *0* | *0* | *24* | ***24*** |
| **Total loan commitments** | **10 170** | **0** | **144** | **10 314** |
| **Impairment allowance (provision)** | **-98** | **0** | **-2** | **-100** |

| (HUF million) | 12-month expected credit loss | Lifetime expected credit loss Not credit-impaired | Lifetime expected credit loss Credit-impaired | 2020.12.31<br>Total |
|---|---|---|---|---|
| **Receivables from customers at amortised cost** | | | | |
| ***Bridging loans*** | | | | |
| *Arrears of 0 day* | *97 874* | *6 640* | *0* | ***104 514*** |
| *Arrears for no more than 1 month* | *276* | *129* | *0* | ***405*** |
| *Arrears for no more than 2 months* | *0* | *101* | *0* | ***101*** |
| *Arrears for no more than 3 months (not default)* | *0* | *118* | *0* | ***118*** |
| *More than 3 months, significant* | *0* | *0* | *26* | ***26*** |
| *Restructured* | *0* | *0* | *139* | ***139*** |
| *Objective evidence* | *0* | *0* | *19* | ***19*** |
| *Associated due to Basel* | *0* | *0* | *5* | ***5*** |
| *Cancelled* | *0* | *0* | *29* | ***29*** |
| *Persistence* | *0* | *0* | *28* | ***28*** |
| *Watch list due to associated contract* | *0* | *0* | *37* | ***37*** |
| ***Immediate bridging loans*** | | | | |
| *Arrears of 0 day* | *286 920* | *25 980* | *0* | ***312 900*** |
| *Arrears for no more than 1 month* | *2 134* | *912* | *0* | ***3 046*** |
| *Arrears for no more than 2 months* | *0* | *955* | *0* | ***955*** |
| *Arrears for no more than 3 months (not default)* | *0* | *884* | *0* | ***884*** |
| *More than 3 months, not significant* | *0* | *10* | *0* | ***10*** |
| *More than 90 days but not more than 3 months, significant* | *0* | *0* | *14* | ***14*** |
| *More than 3 months, significant* | *0* | *0* | *833* | ***833*** |
| *Restructured* | *0* | *0* | *2 357* | ***2 357*** |
| *Objective evidence* | *0* | *0* | *184* | ***184*** |
| *Associated due to Basel* | *0* | *0* | *93* | ***93*** |
| *Cancelled* | *0* | *0* | *1 066* | ***1 066*** |
| *Persistence* | *0* | *0* | *281* | ***281*** |
| *Watch list due to associated contract* | *0* | *0* | *357* | ***357*** |
| ***Housing loans*** | | | | |
| *Arrears of 0 day* | *50 616* | *4 038* | *0* | ***54 654*** |
| *Arrears for no more than 1 month* | *96* | *101* | *0* | ***197*** |
| *Arrears for no more than 2 months* | *0* | *100* | *0* | ***100*** |
| *Arrears for no more than 3 months (not default)* | *0* | *47* | *0* | ***47*** |
| *More than 3 months, significant* | *0* | *0* | *41* | ***41*** |
| *Restructured* | *0* | *0* | *128* | ***128*** |
| *Objective evidence* | *0* | *0* | *11* | ***11*** |
| *Associated due to Basel* | *0* | *0* | *9* | ***9*** |
| *Cancelled* | *0* | *0* | *70* | ***70*** |
| *Watch list due to associated contract* | *0* | *0* | *31* | ***31*** |
| **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** | | | | |
| *BBB-* | 58 156 | *0* | *0* | ***58 156*** |
| **Total gross value** | **58 156** | **0** | **0** | **58 156** |
| **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 - leases** | | | | |
| *Number of days past due: 0-30* | *449* | *0* | *0* | ***449*** |
| **Total gross value** | **449** | **0** | **0** | **449** |
| *Impairment allowance* | *-13* | *0* | *0* | *-13* |
| **Total net carrying amount** | **436** | **0** | **0** | **436** |
| **Other financial receivables** | | | | |
| *Number of days past due: 0-30* | *0* | *658* | *0* | **658** |
| *Number of days past due: 31-90* | *0* | *24* | *0* | **24** |
| *Number of days past due: 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 month* | 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** |

*Table 32.1.2. - Provision matrix*

| (HUF million) | | | 31.12.2021 |
|---|---|---|---|
| **Number of days past due** | **Rating** | **Provision rate** | **Gross value** |
| 0-30 days | Stage 2 | 3% | 721 |
| 31-90 days | Stage 2 | 5% | 10 |
| 91-820 days | Stage 3 | 9% | 41 |
| 821-1,185 days | Stage 3 | 35% | 5 |
| More than 1,186 days | Stage 3 | 100% | 14 |
| **Other financial receivables-other** | | | **791** |

*Cash and cash equivalents*

The Group's cash and cash equivalents as of 31 December 2021 totalled HUF 76,903 million (31 December 2020: HUF 58,156 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.

The market value of collateral totalled HUF 1,499,515 million as at 31 December 2021 (31 December 2020: HUF 1,367,311 million).

During collection of accounts receivables, the amount realised from claiming collateral totalled HUF 32 million in 2021 (2020: HUF 21 million). Collateral is claimed by participating in enforcement proceedings to the extent of the receivables of the Group.

*Table 32.1.3. - Collateral*

| (HUF million) | Ratio of exposures subject to collateral requirements (%) | | Basic type of collateral |
|---|---|---|---|
| | 31.12.2020 | 31.12.2020 | |
| ***Receivables from customers - Retail customers*** | | | |
| Immediate bridging loans | 99,98% | 99,98% | property collateral |
| Bridging loans | 98,43% | 98,13% | property collateral |
| Housing loans | 87,54% | 86,99% | property collateral |
| ***Receivables from customers - Multi-occupancy buildings*** | | | |
| Immediate bridging loans | 0,18% | 0,26% | property collateral |
| Housing loans | 0,11% | 0,10% | 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 32.1.4. - Loan-to-value ratio (LTV) of mortgage loans*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Less than 50% | 161 240 | 147 611 |
| 51-70% | 133 198 | 121 487 |
| 71-90% | 184 856 | 167 961 |
| 91-100% | 5 | 5 |
| Over 100% | 46 | 53 |
| No LTV | 38 197 | 46 394 |
| **Loan receivables total gross portfolio** | **517 542** | **483 511** |

*Table 32.1.5. - Loan-to-value ratio (LTV) of credit-impaired loans*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Less than 50% | 2 323 | 773 |
| 51-70% | 2 819 | 897 |
| Over 70% | 6 159 | 2 337 |
| No LTV | 1 967 | 1 751 |
| **Impaired loan receivables total gross portfolio** | **13 268** | **5 758** |

*Table 32.1.6. - Loan-to-value ratio (LTV) of mortgage loan commitments*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Less than 50% | 4 441 | 2 880 |
| 51-70% | 2 478 | 2 059 |
| 71-90% | 2 617 | 2 328 |
| No LTV | 778 | 871 |
| **Total** | **10 314** | **8 138** |

*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 2021 the Group had no financial instruments which had not been impaired on account of collateral. The value of the collateral property does not impact the impairment; it is only the basis of portfolio segmentation whether the given contract is secured or not by collateral property. As at 31 December 96.0% of the portfolio was secured by collateral property, while the same ratio for the credit-impaired portfolio was 97.7%. The backtested PDs and LGDs for the secured portfolio are more favourable than for the unsecured portfolio, thus the impairment rates applied to that are also lower.

### d) Amounts arising from expected credit loss

*Inputs, assumptions and methods used to estimate impairment*

The Group applies 8 product categories for PD classification: housing loans (secured / unsecured), bridging loans (secured / unsecured), immediate bridging loans (secured, unsecured with 1 year's savings, unsecured with zero day's savings), multi-occupancy building/housing co-operative loans. Short (PIT) and long-term (TTC) PDs are estimated with the help of the T-5 and T-3 annual cohorts. Forward-looking information is incorporated by modifying the PIT PD.

LGD segments are established based on the product type (housing loan, bridging loan, immediate bridging loan) and the termination status (not terminated, terminated due to non-performance, terminated due to missing verification of housing purpose). Deposits are taken into account as loss-reducing items. The data of previous collateral valuation actions are taken into account when calculating the ultimate LGD figures, as final loss-reduction items.

The EADs are based on amortised cost.

The curing ratios are segmented based on the product age (younger/older than 48 months) and coverage (secured / non secured).

For further details and the related accounting policy please refer to Note 6.4.

*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).

If a behavioural score deteriorates by 2 notches compared to the rating upon initial recognition, this indicates a significant increase in the credit risk of the transaction.

*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 several 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).

*Significant increase in credit risk (SICR) assessment*

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.

Due to the payment moratorium, new Stage 2 indicators were introduced (see Note 6.4)

For stage classifications in the other direction (e.g. migration from Stage 2 to Stage 1) there are no special conditions in the case of normal indicators (for example, no separate trial period is applied); however, a trial period must be applied to transactions transferred to Stage 2 because of the moratorium.

If a retail transaction was in the moratorium for more than 9 months, and thus was transferred to Stage 2, it can be released provided it complies with the following: If it was not in default for more than 30 days during the 6-month monitoring period after exiting the moratorium or the expiry of the moratorium, the amount in arrears did not exceed EUR 100, and there are no other Stage 2 indicators or circumstances that would in themselves lead to a restructuring, the contract may be released from Stage 2 during the rating at the end of the 7$^{th}$ month (provided none of the previous conditions are met).

If a corporate transaction (multi-occupancy building or housing co-operative) was in the moratorium for more than 9 months, and thus was transferred to Stage 2, the staging relevant for restructured contracts must be applied.

*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 6.3 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 (examples: all participants of the contract died, disappeared, the collateral is destroyed, changed risk conditions)
- 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.

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<br>• 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:  the MNB circular does not contain values for this indicator. At the same time, in its September 2020 Inflation Report the MNB forecasts a range for retail loan expansion for 2020, 2021 and 2022. The Company adopts the two extremes of the forecast range for its own favourable and unfavourable scenarios, while the baseline is determined between them based on an expert decision. Similar to GDP, Fundamenta adjusts the 2020 forecast to the value included in the MNB’ December Inflation Report, while the Company did not make corrections at the other sections of the forecast horizon;
- Employment data: we considered the assumed impact of unemployment; however, for statistical reasons it was excluded from the final model;

- Annual change in the price index of residential properties: MNB did not publish such forecast, therefore the Group calculates with the following changes in prices for the next 12 months, on an expert basis: favourable (10%), baseline (0%), unfavourable (-20%).

Scenario weights: in its executive circular MNB recommends the following weights for the three scenarios: favourable (5-10%), baseline (80-90%), unfavourable (5-10%). Fundamenta has taken advantage of the headroom provided by MNB and because of the serious uncertainties caused by the pandemic it defined asymmetric weights as follows, in the case of PD: favourable (5%), baseline (85%), unfavourable (10%). In the case of LGD, symmetric weights were defined for changes in prices relating to residential property as follows: favourable (5%), baseline (90%), unfavourable (5%).

| | Unfavourable | **Baseline** | Favourable | Unfavourable | **Baseline** | Favourable |
|---|---|---|---|---|---|---|
| 2020 | -8.3 | **-6.5** | -5.5 | 1.2 | **5.0** | 12.5 |
| 2021 | 0.2 | **5.6** | 8.7 | 4.0 | **5.0** | 5.9 |
| 2022 | 5.5 | **5.1** | 5.4 | 2.6 | **6.1** | 9.7 |
| Scenario weights in the case of PD: | | | | 10% | 85% | 5% |
| Scenario weights in the case of LGD: | | | | 5% | 90% | 5% |
| Change in the price of residential property: | | | | -20% | 0% | 10% |

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 in the case of PD:

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

When assessing impairment the following information relating to the future was used in the case of LGD:

- Annual change in the price index of residential properties

*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 32.1.7. - External benchmark information*

| (HUF million) | Exposure | External benchmark used | |
|---|---|---|---|
| | | PD | LGD |
| Hungarian State , MNB | 175 293 | 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, in 2020 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 with a management overlay, not directly to the contracts under the moratorium, but at contract level, based on the whole Stage 1 and Stage 2 portfolios. The overlay made this way amounted to HUF 2.3 billion as of 31.12.2020. The Group prepared for the expected impacts of the COVID situation in 2020 based on this conservative methodology.

Although the moratorium had no significant impact on the staging logic in 2020, this changed in 2021. At the start of the year, the "Executive Circular on the use of macroeconomic information and the factors indicating a significant increase in credit risk under IFRS 9" stated that transactions taking advantage of the payment moratorium for more than 9 months must be classified into Stage 2 (see Note 6.4). This triggered a marked increase in the Stage 2 portfolio.

A new phase of the moratorium began from 1 November 2021 (Moratorium 2+), in which the number of participants dropped markedly (3,484 of the 118,535 customers used this opportunity at the end of December). Customers had to inform the Bank by 31 October 2021 of their participation in Moratorium 2+. They were able to take advantage of the rights under Moratorium 2+ if any of the following applied to the given customer:

- Prolonged reduction in income
- Unemployed
- Participant in a public employment programme
- Retired
- Raising a child

If a customer is in this phase of the moratorium, their contract must be classified in Stage 2. The Group also classifies in Stage 3 the contracts where the customer marked their reason for remaining in the moratorium as a prolonged reduction in income or unemployment (1,137 contracts). Since the hidden Stage 3 portfolio decreased as a result (but did not disappear completely), the related overlay was also reduced (by HUF 750 million).

*Loss allowance*

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

*Table 32.1.8. - Movements in loss allowance (Loan receivables)*

| | | | | 2021 | | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| **(HUF million)** | **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 | 3 052 | 516 | 3 458 | **7 026** | 753 | 139 | 3 822 | **4 714** |
| Transfers | -306 | 542 | -236 | **0** | 1 243 | 221 | -1 464 | **0** |
| Increase due to origination | 613 | 0 | 0 | **613** | 222 | 0 | 0 | **222** |
| Further amounts recognised | 187 | 1 155 | 2 779 | **4 121** | 2 216 | 839 | 1 742 | **4 797** |
| Release | -1 180 | -635 | -565 | **-2 380** | -1 291 | -666 | -487 | **-2 444** |
| Decrease due to derecognition | -271 | -189 | -384 | **-844** | -96 | -28 | -329 | **-453** |
| Other changes | 0 | 0 | 192 | **192** | 6 | 11 | 174 | **191** |
| **Balance at 31 December** | **2 095** | **1 389** | **5 244** | **8 728** | **3 053** | **516** | **3 458** | **7 027** |

*Table 32.1.9. - Movements in gross amount (Loan receivables)*

| (HUF million) | 12-month expected credit loss (Stage 1) | Lifetime expected credit loss - not credit-impaired (Stage 2) | Lifetime expected credit loss (Stage 3) | Total |
|---|---|---|---|---|
| | | | | **31.12.2021** |
| **Balance at 31 December of previous year** | **437 916** | **40 015** | **5 758** | **483 689** |
| *Increase due to origination and purchase* | *93 879* | *0* | *0* | ***93 879*** |
| *Other changes* | *-25 228* | *4 091* | *419* | ***-20 718*** |
| *Decrease due to derecognition* | *-24 372* | *-13 332* | *-648* | ***-38 352*** |
| *Transfer between Stages* | *-95 960* | *88 183* | *7 777* | ***0*** |
| *Write-off/forgiveness* | *3* | *2* | *-22* | ***-17*** |
| *Change due to payment moratorium* | *-38* | *-666* | *-16* | ***-720*** |
| **Balance at 31 December** | **386 200** | **118 293** | **13 268** | **517 761** |

*Table 32.1.10. - 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) | Total |
|---|---|---|---|---|
| | | | | **31.12.2021** |
| **Impairment of securities that are debt instruments** | | | | |
| **Balance at 31 December of the previous year** | **127** | **0** | **0** | **127** |
| *Increase due to origination and purchase* | *10* | *0* | *0* | ***10*** |
| *Movement due to change in credit risk (net)* | *-2* | *0* | *0* | ***-2*** |
| *Decrease due to derecognition* | *-40* | *0* | *0* | ***-40*** |
| ***Balance at 31 December*** | *95* | *0* | *0* | ***95*** |
| **Impairment of other financial receivables** | | | | |
| **Balance at 31 December of the previous year** | **14** | **12** | **5** | **31** |
| *Increase due to origination* | *0* | *10* | *0* | ***10*** |
| *Movement due to change in credit risk (net)* | *-1* | *1* | *17* | ***17*** |
| *Decrease due to derecognition* | *-1* | *-13* | *-1* | ***-15*** |
| *Transfer between Stages* | *0* | *1* | *-1* | ***0*** |
| **Balance at 31 December** | **12** | **11** | **20** | **43** |
| **Provision for line of credit** | | | | |
| **Balance at 31 December of the previous year** | **77** | **0** | **0** | **77** |
| *Increase due to origination* | *878* | *0* | *0* | ***878*** |

| | | | | |
|---|---|---|---|---|
| *Movement due to change in credit risk (net)* | *0* | *0* | *1* | ***1*** |
| *Decrease due to derecognition* | *-852* | *0* | *-4* | ***-856*** |
| *Transfer between Stages* | *-5* | *0* | *5* | ***0*** |
| **Balance at 31 December** | **98** | **0** | **2** | **100** |

| (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<br>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*** |
| *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** |
| **Provision for line of credit** | | | | |
| **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** |

*Table 32.1.11. - Movements in gross amount (additional financial assets and lines of credit)*

| (HUF million) | | | | 31.12.2021 |
|---|---|---|---|---|
| | 12-month expected credit loss (Stage 1) | Lifetime expected credit loss - not credit-impaired (Stage 2) | Lifetime expected credit loss (Stage 3) | Total |
| **Securities that are debt instruments** | | | | |
| **Balance at 31 December of previous year** | **140 651** | **0** | **0** | **140 651** |
| *Increase due to origination and purchase* | *10 353* | *0* | *0* | ***10 353*** |
| *Other changes* | *-536* | *0* | *0* | ***-536*** |
| *Decrease due to derecognition* | *-47 087* | *0* | *0* | ***-47 087*** |
| **Balance at 31 December** | **103 381** | **0** | **0** | **103 381** |
| **Other financial receivables** | | | | |
| **Balance at 31 December of previous year** | **449** | **682** | **60** | **1 191** |
| *Increase due to origination and purchase* | *5* | *339* | *0* | ***344*** |
| *Other changes* | *16* | *64* | *13* | ***93*** |
| *Decrease due to derecognition* | *0* | *-339* | *-15* | ***-354*** |
| *Lease payments* | *-60* | *0* | *0* | ***-60*** |
| *Transfer between Stages* | *0* | *-12* | *12* | ***0*** |
| *Write-off/forgiveness* | *0* | *-3* | *-10* | ***-13*** |
| **Balance at 31 December** | **410** | **731** | **60** | **1 201** |
| **Loan commitments** | | | | |
| **Balance at 31 December of previous year** | **8 097** | **0** | **41** | **8 138** |
| *Increase due to origination and purchase* | *91 253* | *0* | *0* | ***91 253*** |
| *Other changes* | *-25* | *0* | *114* | ***89*** |
| *Decrease due to derecognition* | *-88 776* | *-10* | *-380* | ***-89 166*** |
| *Transfer between Stages* | *-379* | *10* | *369* | ***0*** |
| **Balance at 31 December** | **10 170** | **0** | **144** | **10 314** |

*Credit-impaired financial assets*

See Note 6.4 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 2021 the Group had HUF 15 million (2020: HUF 1 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 32.1.12. - Modified financial assets*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| ***Financial assets modified during the year*** | | |
| Amortised cost before modification | 103 527 | 33 612 |
| Net modification loss | -683 | -370 |

Of the amounts above, HUF 103,380 million amortised cost and HUF 682 million net modification loss relate to contract modifications due to the loan moratorium for the financial year 2021 (2020: HUF 33,263 million amortised cost, HUF 365 million net modification loss).

Contracts, which were at least 9 months in the loan moratorium, were reclassified into Stage 2 in 2021, and as a result, the portfolio of modified financial assets measured for impairment purposes at an amount equal to lifetime expected credit loss increased.

*Table 32.1.13. - Modified financial assets*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| | Gross carrying amount | Gross carrying amount |
| Loans cured following modification that have again a loss allowance measured at an amount equal to 12-month expected credit loss | 8 991 | 125 |

HUF 8 987 million gross carrying amount was identified in 2021 in connection with the loan moratorium, while in 2020 there was no such item.

*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).

If a debtor still does not cooperate and does not settle their debt, then legal proceedings to recover the receivable are launched, during which the collateral for the transaction is claimed as well. If the receivable is not recovered in full during the procedure, or partly becomes irrecoverable, the remainder is written off.

### 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 32.1.14. - Concentrations of credit risk*

| (HUF million) | Gross value of loan receivables | |
|---|---|---|
| | 31.12.2021 | 31.12.2020 |
| **Gross value** | **517 542** | **483 511** |
| **Concentration by sector** | | |
| ***Multi-occupancy buildings, Housing cooperatives*** | ***12 413*** | ***10 332*** |
| Mortgaged | 17 | 19 |
| Unsecured loans | 12 396 | 10 313 |
| ***Retail*** | ***505 129*** | ***473 179*** |
| Mortgaged | 496 843 | 464 306 |
| Unsecured loans | 8 286 | 8 873 |
| **Total** | **517 542** | **483 511** |
| ***Concentration by geographic location*** | | |
| Bács-Kiskun | 27 254 | 25 241 |
| Baranya | 11 559 | 11 276 |
| Békés | 11 515 | 11 389 |
| Borsod-Abaúj-Zemplén | 27 328 | 26 866 |
| Budapest | 97 316 | 91 256 |
| Csongrád-Csanád | 25 778 | 24 929 |
| Fejér | 29 217 | 27 782 |
| Győr-Moson-Sopron | 32 791 | 28 903 |
| Hajdú-Bihar | 25 996 | 24 412 |
| Heves | 12 133 | 11 558 |
| Jász-Nagykun-Szolnok | 17 469 | 15 856 |
| Komárom-Esztergom | 27 745 | 23 588 |
| Nógrád | 5 535 | 5 095 |
| Pest | 85 833 | 78 802 |
| Somogy | 8 036 | 8 003 |
| Szabolcs-Szatmár-Bereg | 21 581 | 21 278 |
| Tolna | 10 825 | 10 145 |
| Vas | 8 209 | 7 673 |
| Veszprém | 22 764 | 21 014 |
| Zala | 8 658 | 8 445 |
| **Total** | **517 542** | **483 511** |

| (HUF million) | Loan commitments | |
|---|---|---|
| | 31.12.2021 | 31.12.2020 |
| Amount committed | 10 314 | 8 138 |
| **Concentration by sector** | | |
| ***Multi-occupancy buildings, Housing cooperatives*** | ***563*** | ***675*** |
| Unsecured loans | 563 | 675 |
| ***Retail*** | ***9 751*** | ***7 463*** |
| Mortgaged | 9 537 | 7 266 |
| Unsecured loans | 214 | 197 |
| **Total** | **10 314** | **8 138** |
| ***Concentration by geographic location*** | | |
| Bács-Kiskun | 554 | 340 |
| Baranya | 328 | 126 |
| Békés | 215 | 202 |
| Borsod-Abaúj-Zemplén | 436 | 400 |
| Budapest | 1 972 | 1 948 |
| Csongrád-Csanád | 487 | 292 |
| Fejér | 512 | 458 |
| Győr-Moson-Sopron | 740 | 573 |
| Hajdú-Bihar | 599 | 435 |
| Heves | 212 | 202 |
| Jász-Nagykun-Szolnok | 344 | 321 |
| Komárom-Esztergom | 618 | 581 |
| Nógrád | 98 | 74 |
| Pest | 1 681 | 1 133 |
| Somogy | 169 | 103 |
| Szabolcs-Szatmár-Bereg | 248 | 283 |
| Tolna | 232 | 120 |
| Vas | 258 | 81 |
| Veszprém | 385 | 342 |
| Zala | 226 | 124 |
| **Total** | **10 314** | **8 138** |

Carrying amount as at 31 December 2021 of securities that are debt instruments totalled HUF 103,286 million (31 December 2020: HUF 140,524 million), broken down by sector as follows.

*Table 32.1.15. - Carrying amount of securities that are debt instruments*

| (HUF million) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Carrying amount of securities that are debt instruments | 103 286 | 140 524 |
| *Vis-à-vis the public sector* | *103 286* | *137 458* |
| *Vis-à-vis the financial sector* | *0* | *3 066* |
| **Total carrying amount of securities that are debt instruments** | **103 286** | **140 524** |

## 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.

### 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) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| At 1 January | 198 267 | 75 168 |
| At 31 December | 168 122 | 198 267 |
| Average in the period | 188 652 | 171 799 |
| Maximum in the period | 204 741 | 198 267 |
| Minimum in the period | 168 122 | 38 684 |

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*

| (%) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| At 1 January | 858,32% | 312,72% |
| At 31 December | 555,55% | 858,32% |
| Average in the period | 748,48% | 452,83% |
| Maximum in the period | 1049,13% | 858,32% |
| Minimum in the period | 509,51% | 290,62% |

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

In 2021 the law about Net Stable Funding Ratio (NSFR) was amended. The 2021 data were already generated in accordance with the new regulation, which resulted in a restructuring between individual categories of liabilities to customers in the tables presenting the maturity analysis of financial assets and 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*

| (HUF million) | | | | | | | 31.12.2021 |
|---|---|---|---|---|---|---|---|
| | | Gross nominal inflow (+)/ outflow (-) | | | | | |
| | 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 | 640 288 | **-684 671** | -13 261 | -97 975 | -395 763 | -85 945 | -91 727 |
| Other financial liabilities | 6 936 | **-7 491** | -534 | -526 | -788 | -3 826 | -1 817 |
| of which: Lease liabilities | 6 017 | **-6 572** | -25 | -179 | -787 | -3 764 | -1 817 |
| Unrecognised loan commitments | 10 314 | **-10 314** | -10 314 | 0 | 0 | 0 | 0 |
| **Total** | **657 538** | **-702 476** | **-24 109** | **-98 501** | **-396 551** | **-89 771** | **-93 544** |
| **Type of financial asset** | | | | | | | |
| ***Non-derivative financial assets*** | | | | | | | |
| Cash and cash equivalents | 76 903 | **76 949** | 76 949 | 0 | 0 | 0 | 0 |
| Securities | 103 286 | **116 989** | 0 | 0 | 11 967 | 71 580 | 33 442 |
| Receivables from customers | 509 033 | **559 335** | 5 763 | 15 370 | 56 013 | 232 275 | 249 914 |
| Other financial receivables | 1 158 | **1 251** | 442 | 11 | 98 | 264 | 436 |
| of which: Lease receivables | 411 | **459** | 11 | 11 | 48 | 259 | 130 |
| **Total** | **690 380** | **754 524** | **83 154** | **15 381** | **68 078** | **304 119** | **283 792** |

| (HUF million) | Carrying amount | Gross nominal inflow (+)/ outflow (-) | | | | | 31.12.2020 |
|---|---|---|---|---|---|---|---|
| | | 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 | 7 666 | **-8 645** | -112 | -214 | -926 | -4 350 | -3 042 |
| 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** |

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) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| ***Financial assets*** | | |
| Securities | 95 016 | 129 798 |
| Receivables from customers | 449 722 | 430 151 |
| Other financial receivables | 666 | 704 |
| | | |
| ***Financial liabilities*** | | |
| Liabilities to customers | 133 852 | 427 493 |
| Other financial liabilities | 5 237 | 6 704 |

## d) Liquidity reserves

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

*Table 32.2.5. - Liquidity reserves*

| (HUF million) | 31.12.2021 | | 31.12.2020 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Balances at central banks | 72 106 | 72 106 | 51 635 | 51 635 |
| Cash and balances at other banks | 4 797 | 4 797 | 6 521 | 6 521 |
| Unencumbered debt securities issued by the state | 103 286 | 99 846 | 137 458 | 147 102 |
| Other assets eligible for use as collateral with central banks | 0 | 0 | 3 066 | 3 058 |
| **Total liquidity reserves** | **180 189** | **176 749** | **198 680** | **208 316** |

## 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 policies. The 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) | | | 31.12.2021 | | | 31.12.2020 |
|---|---|---|---|---|---|---|
| | Fixed rate | Floating rate | Non-interest-bearing | Fixed rate | Floating rate | Non-interest-bearing |
| Cash and cash equivalents | 76 903 | 0 | 0 | 58 156 | 0 | 0 |
| Receivables from customers | 509 033 | 0 | 0 | 476 662 | 0 | 0 |
| Securities | 103 286 | 0 | 0 | 140 524 | 0 | 0 |
| Other financial receivables | 398 | 0 | 760 | 436 | 0 | 724 |
| **Total financial assets** | **689 620** | **0** | **760** | **675 778** | **0** | **724** |
| Liabilities to customers | 640 288 | 0 | 0 | 632 325 | 0 | 0 |
| Other financial liabilities | 6 017 | 0 | 919 | 7 666 | 0 | 1 531 |
| **Total financial liabilities** | **646 305** | **0** | **919** | **639 991** | **0** | **1 531** |

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) | | | | 31.12.2021 | | | | 31.12.2020 |
|---|---|---|---|---|---|---|---|---|
| | EUR | HUF | USD | Total | EUR | HUF | USD | Total |
| Financial assets subject to foreign currency risk | | | | | | | | |
| Cash and cash equivalents | 3 267 | 73 596 | 40 | **76 903** | 1 440 | 56 682 | ***34*** | **58 156** |
| Receivables from customers | 0 | 509 033 | 0 | **509 033** | 0 | 476 662 | ***0*** | **476 662** |
| Securities | 0 | 103 286 | 0 | **103 286** | 0 | 140 524 | ***0*** | **140 524** |
| Other financial receivables | 688 | 470 | 0 | **1 158** | 747 | 413 | ***0*** | **1 160** |
| ***Total*** | ***3 955*** | ***686 385*** | ***40*** | ***690 380*** | ***2 187*** | ***674 281*** | ***34*** | ***676 502*** |
| Financial liabilities subject to foreign currency risk | | | | | | | | |
| Liabilities to customers | 0 | 640 288 | 0 | **640 288** | 0 | 632 325 | ***0*** | **632 325** |
| Other financial liabilities | 5 024 | 1 912 | 0 | **6 936** | 6 236 | 2 961 | ***0*** | **9 197** |
| ***Total*** | ***5 024*** | ***642 200*** | ***0*** | ***647 224*** | ***6 236*** | ***635 286*** | ***0*** | ***641 522*** |
| **Net exposure to foreign currency risk** | **-1 069** | **44 185** | **40** | **43 156** | **-4 049** | **38 995** | **34** | **34 980** |

The FX item under other financial liabilities primarily comprises 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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 31.12.2021 | 31.12.2020 |
| 1 EUR = | 358,52 | 351,17 | 369,00 | 365,13 |
| 1 USD = | 303,29 | 307,93 | 325,71 | 297,36 |

*Table 32.3.4 - Sensitivity analysis (currency risk)*

| Currency | | | 31.12.2021 |
|---|---|---|---|
| | Change (%) | Effect on Shareholder's equity | Effect on profit |
| EUR | 2% | -21 | -21 |

The Group's exposure to foreign currency risk was not significant in FY 2021.

## 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 reputation risks, as well as risks connected to information and communication technology systems, and legal risks, but excludes strategic risks, risks that are only market risks and credit risk events.

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 organisational units 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 department, 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.
- It 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 Risk Board).
- It 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, it is responsible for the controlling process of operational risks.
- It is responsible for the aggregate recording, documentation and rating of operational risks.
- It is responsible for carrying out educational tasks related to operational risks, as well as for providing professional direction to MKFs.

- It is responsible for the management of Oprisk Manager rights, and in connection with this, for keeping up-to-date records.

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 department 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, as well as MNB guidelines.

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 2021 and 2020.

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) | 31.12.2021 | 31.12.2020 |
|---|---|---|
| ***Tier 1 - Core capital /CET1/*** | | |
| Share capital | 2 001 | 2 001 |
| Capital reserve | 2 100 | 2 100 |
| Retained earnings | 42 785 | 37 686 |
| of which: foreseeable dividends | 0 | 0 |
| Other reserve | 6 669 | 6 193 |
| Deductions: | -8 289 | -8 126 |
| of which: Intangible assets | -8 289 | -8 126 |
| **Total regulatory capital** | **45 266** | **39 854** |

# 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*

| (HUF million) | Level 1 | Level 2 | Level 3 | Total fair values | 31.12.2021<br>Total carrying amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 3 846 | 73 057 | 0 | **76 903** | 76 903 |
| Securities | 99 846 | 0 | 0 | **99 846** | 103 286 |
| Receivables from customers | 0 | 0 | 516 664 | **516 664** | 509 033 |
| Other financial receivables | 0 | 1 158 | 0 | **1 158** | 1 158 |
| **Liabilities** | | | | | |
| Liabilities to customers | 0 | 0 | 651 278 | **651 278** | 640 288 |
| Other financial liabilities | 0 | 6 936 | 0 | **6 936** | 6 936 |
| **(HUF million)** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **31.12.2020<br>Total carrying amount** |
| **Assets** | | | | | |
| Cash and cash equivalents | 1 915 | 56 241 | 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 |

# 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: PricewaterhouseCoopers Könyvvizsgáló Kft. (1055 Budapest, Bajcsy-Zsilinszky út 78.)Natural person auditor: Enikő Könczöl (Chamber registration number: 007367)

Fees charged by the audit firm in the reporting year:

- Audit: HUF 35.5 million + VAT
- Other assurance services: HUF 2.2 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*

| | Components of equity as per the Act on Accounting - 31.12.2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(HUF million)** | **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 | 36 575 | 0 | 0 | 0 | **36 575** |
| Settlement reserve | 0 | 0 | 0 | 6 959 | 0 | 0 | 0 | **6 959** |
| General reserve | 0 | 0 | 0 | 0 | 0 | 0 | 6 669 | **6 669** |
| Reporting-year profit after tax | 0 | 0 | 0 | 0 | 6 210 | 0 | 0 | **6 210** |
| 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** | **43 534** | **6 210** | **0** | **6 669** | **60 514** |
| **Equity as per the Act on Accounting** | **2 001** | **0** | **2 100** | **43 534** | **6 210** | **0** | **6 669** | **60 514** |

| (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 (restated) | Profit after tax (restated) | Valuation reserve | Allocated reserve (restated) | Total (restated) |
| 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 | 33 027 | 0 | 0 | 0 | **33 027** |
| Settlement reserve | 0 | 0 | 0 | 6 959 | 0 | 0 | 0 | **6 959** |
| General reserve | 0 | 0 | 0 | 0 | 0 | 0 | 6 130 | **6 130** |
| Reporting-year profit after tax | 0 | 0 | 0 | 0 | 4 087 | 0 | 0 | **4 087** |
| 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** | **39 986** | **4 087** | **0** | **6 130** | **54 304** |
| **Equity as per the Act on Accounting** | **2 001** | **0** | **2 100** | **39 986** | **4 087** | **0** | **6 130** | **54 304** |

The amount of share capital as per EU IFRSs shown for 31 December 2021 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) | 31.12.2021 | 31.12.2020 (restated) |
|---|---|---|
| Retained earnings | 36 575 | 33 027 |
| Profit for the year | 6 210 | 4 087 |
| **Funds available for dividend payment** | **42 785** | **37 114** |

## 36. Impacts of the coronavirus (COVID-19) on the 2021 consolidated financial statements

2021 was also determined by the spread of the coronavirus and the attempts at mitigating the damage it caused. The pandemic hit the Hungarian economy while it was enjoying stable fundamentals and strong growth; prior to its outbreak, economic growth was balanced and dynamic. The start to 2021 was a difficult year from an economic perspective. Performance varied across economic sectors, but the lifting of the pandemic restrictions meant that by the middle of the year Hungarian GDP had already surpassed its pre-pandemic level. The annual GDP growth rate was probably around 6.5% in 2021.

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 finally until 30 June 2022. 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.

2021 was also a year of monetary policy change. After many years of an accommodating policy, the central bank started tightening in June. Responding to inflation that was higher than targeted, and the further upside risks, the MNB launched an interest rate hike cycle. By the end of the year it raised the base rate in several steps from 0.60% to 2.40%, while the interest rate on one-week deposits, now a benchmark again, was increased to 4.00%. The Monetary Council may continue the hike cycle until the inflation outlook stabilises in a sustainable manner at the central bank's target, and inflation risks balance again over the monetary policy horizon. In addition to tightening interest rates, the central bank gradually phased out its crisis management tools over the year, and at the end of the year it stopped its Growth Bond Programme as well as its asset purchase programme.

O/N interbank rates only followed the one-week deposit rate hike at a distance due to the extremely high forint liquidity, while the BUBOR rates are signalling further rate hikes in line with the central bank communication. The 3-month BUBOR jumped from 0.75% at the beginning of the year to 4.20% at the end of the year. The government bond market yield curve became rather flat, while the overall curve shifted upwards. Real Hungarian interest rates will rise in the period ahead through both interest rate hikes and falling inflation.

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

In the reporting year the Group's liquidity position remained stable right throughout the extended pandemic period. The behaviour of customers was in line with that projected in our portfolio model.

To maintain the stability of short-term liquidity management, we have a GMRA (Global Master Repurchase Agreement) with three banks. The repo agreements enable the Company to use HUF 5 billion short-term refinancing per partner. 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 Group 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 Company reported about its liquidity to the Magyar Nemzeti Bank, as the supervisory authority, on a monthly basis, in a separate data report.

During the annual ILAAP review the MNB found that the Company's internal liquidity adequacy assessment process complies with the requirements of the supervisory authority, and so deemed the net liquidity risk to be moderate. This rating is one notch better than the previous year.

Besides the balanced stability of the business model, we believe the improved rating is thanks to the fact that the preparations regarding external funding defined in the business strategy are ensuing on schedule.

### Loan portfolio

The impact of the coronavirus on the loan portfolio is described in Note 32.1/d 'Coronavirus impacts'.

### Capital position

The Group has a very stable capital position.

On the strength of the audited figures, the year-end regulatory capital exceeded HUF 45 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 2021 pulled the reporting-year profit down by HUF 0.7 billion (2020: HUF 2.4 billion).

## 37. Restatements

The Group prepared its first IFRS annual financial statements as at 31 December 2018 with 1 January 2017 as the date of transition. In connection with the transition to IFRSs, the Group interpreted incorrectly the laws related to local business tax and innovation contribution, and it should have not recognised the deferred tax asset recorded in connection with the transition. For further related information please refer to Note 29.4. To correct the significant error from the previous period, the Group carried back the items of tax difference due to transition and recalculated the taxes. The effect of the tax difference due to transition and the recalculated tax on the statement of financial position, the statement of total comprehensive income and the statement of cash flows are presented in the following tables

*Table 37.1. - Restated statement of financial position 31.12.2020*

| (HUF million) | 31.12.2020 (published) | adjustment | 31.12.2020 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| Current tax assets | 1 338 | -180 | 1 158 |
| Deferred tax assets | 948 | -434 | 514 |
| **TOTAL ASSETS** | **698 883** | **-614** | **698 269** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Current tax liabilities | 4 | 21 | 25 |
| **TOTAL LIABILITIES** | **643 944** | **21** | **643 965** |
| Retained earnings | 33 615 | -588 | 33 027 |
| Statutory reserves | 13 152 | -63 | 13 089 |
| General reserve | 6 193 | -63 | 6 130 |
| Profit for the year | 4 071 | 16 | 4 087 |
| **TOTAL SHAREHOLDERS' EQUITY** | **54 939** | **-635** | **54 304** |
| **Equity attributable to owners of the parent company** | **54 939** | **-635** | **54 304** |
| **TOTAL EQUITY AND LIABILITIES** | **698 883** | **-614** | **698 269** |

*Table 37.2. - Restated statement of profit or loss and comprehensive income 2020*

| (HUF million) | 2020 (published) | adjustment | 2020 (restated) |
|---|---|---|---|
| Income taxes | -1 154 | 16 | -1 138 |
| **NET PROFIT** | **4 071** | **16** | **4 087** |
| **OTHER COMPREHENSIVE INCOME** | **0** | **0** | **0** |
| **TOTAL COMPREHENSIVE INCOME** | **4 071** | **16** | **4 087** |
| Net profit attributable to owners of the Company | 4 071 | 16 | 4 087 |
| Total comprehensive income attributable to owners of the Company | 4 071 | 16 | 4 087 |

*Table 37.3. - Restated statement of financial position 01.01.2020*

| (HUF million) | 01.01.2020 (published) | adjustment | 01.01.2020 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| Deferred tax assets | 836 | -651 | 185 |
| **TOTAL ASSETS** | **640 118** | **-651** | **639 467** |
| **EQUITY AND LIABILITIES** | | | |
| **TOTAL LIABILITIES** | **586 750** | **0** | **586 750** |
| Retained earnings | 28 874 | -369 | 28 505 |
| Statutory reserves | 12 925 | -65 | 12 860 |
| General reserve | 5 966 | -65 | 5 901 |
| Profit for the year | 7 468 | -217 | 7 251 |
| **TOTAL SHAREHOLDERS' EQUITY** | **53 368** | **-651** | **52 717** |
| **Equity attributable to owners of the parent company** | **53 368** | **-651** | **52 717** |
| **TOTAL EQUITY AND LIABILITIES** | **640 118** | **-651** | **639 467** |

*Table 37.4. - Restated statement of cash flows*

| (HUF million) | 2020 (published) | adjustment | 2020 (restated) |
|---|---|---|---|
| **NET PROFIT** | **4 071** | **16** | **4 087** |
| Income tax expense | 1 154 | -16 | 1 138 |
| **Net cash from/used in operating activities** | **37 004** | **0** | **37 004** |
| **Net cash from/used in investing activities** | **-33 175** | **0** | **-33 175** |
| **Net cash from/used in financing activities** | **-2 949** | **0** | **-2 949** |
| **Cash and cash equivalents at 31 December** | **58 156** | **0** | **58 156** |

Budapest, 22 February 2022

**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 2021

Fundamenta

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# 1. EXTERNAL FACTORS INFLUENCING THE ACTIVITY OF LAKÁS-TAKARÉKPÉNZTÁR

## 1.1. General macroeconomic conditions

### Growth

The start to 2021 was a difficult year from an economic perspective. Performance varied across economic sectors, but the lifting of the pandemic restrictions meant that by the middle of the year Hungarian GDP had already surpassed its pre-pandemic level. The annual GDP growth rate was around 7% in 2021. The construction sector performed strongly throughout the year driven by strong demand from the public and private sectors (see investment rate of around 30%). There was spectacular expansion in industry in the first half of the year, caused mainly by base effects, but widespread shortages of raw materials dampened performance by the end of the year. Alongside declining volumes, the output value of agriculture could only grow thanks to double-digit price increases. The services sector was the biggest loser during the pandemic, but after "re-opening", most sub-sectors – led by hospitality and tourism – recovered and had a good year. In 2022, the welfare measures already announced will mean higher disposable incomes for a wide section of society. This will certainly help to keep GDP growth above 5% next year.

### Labour market

The labour market fluctuated in line with the economy's performance over the year. In the early months, the burgeoning pandemic resulted in worsening employment figures, but even then we saw an increase in the number of jobs in the prosperous sectors. And after the restrictions were lifted almost completely, tourism and hospitality started to boom as well. The generally higher employment in industry was driven by shortages of raw materials and transport difficulties. "Full" employment returned by the second half of the year, while regional disparities persisted across the country. Accordingly, or thanks to public wage increases, wages increased by around 10%, but real wage developments were significantly affected by the rising inflation. We expect these trends to continue in 2022.

### Inflation

The inflation rate was still within the central bank's target range in the first quarter of the year, but was already on an upwards trend. From the spring onwards, the consumer price index reached levels not seen for many years, rising above 7% in November. Contrary to the opinion of the major central banks, the Magyar Nemzeti Bank indicated at the beginning of the summer that the rise was not temporary – this bore out in the autumn. Price rises became widespread by the second half of the year, and this situation is unlikely to calm down in the short term. The double-digit increase in producer prices will continue to feed through to consumer prices in the coming months, and the annual average price increase of around 5% this year could be repeated in 2022.

### Equilibrium

The budget deficit for 2021 was 7.5% of GDP, compared to 6.5% projected by the Ministry of Finance a year ago. Just like in 2020, the government continued its active and stimulative fiscal policy. The loose fiscal policy of the last two years may have taken a turn at the end of the year, when the government decided to set aside HUF 350 billion in reserves in December. The government projects a more favourable debt trajectory for 2022 than in the previous year, with the government debt-to-GDP ratio falling from 80% at the end of 2021 to 77% by the end of 2022.

### Interest rates, currency rates

2021 was also a year of monetary policy change. After many years of an accommodating policy, the central bank started tightening in June. Responding to inflation that was higher than targeted, and the further upside risks, the MNB launched an interest rate hike cycle. By the end of the year it raised the base rate in several steps from 0.60% to 2.40%, while the interest rate on one-week deposits, now a benchmark again, was increased to 4.00%. The Monetary Council may continue the hike cycle until the inflation outlook stabilises in a sustainable manner at the central bank's target, and inflation risks balance again over the monetary policy horizon. In addition to tightening interest rates, the central bank gradually phased out its crisis management tools over the year, and at the end of the year it stopped its Growth Bond Programme as well as its asset purchase programme.

O/N interbank rates only followed the one-week deposit rate hike at a distance due to the extremely high forint liquidity, while the BUBOR rates are signalling further rate hikes in line with the central bank communication. The 3-month BUBOR jumped from 0.75% at the beginning of the year to 4.20% at the end of the year. The government bond market yield curve became rather flat, while the overall curve shifted upwards. Real Hungarian interest rates will rise in the period ahead through both interest rate hikes and falling inflation.

The forint started the year around 360 against the euro. With the MNB being one of the first to begin hiking rates, the forint also started to flex its muscles, reaching 345. This rally did not last for long, and from mid-summer, as a result of the tightening FED guidance and the impact of central bank interest-rate hikes in the region, which exceeded expectations, the forint began to lose its relative advantage and ended the year at 370.

## 1.2. Housing policy measures by the government

2021 was marked by the prolonged repercussions of the coronavirus pandemic and the economic effects of the measures introduced by the government and the central bank to avert them. A fluctuation could be observed, caused by market-related measures following the lockdowns, but then the market returned to its 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 2021, 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. We estimate the amount spent by the Government on home renovation support to be about HUF 170 billion in 2021.

The preferential VAT rate of 5% should be highlighted from the government's measures that entered into force in 2021, along with the ability to reclaim it by those eligible for Family Housing Support (CSOK) for newly constructed homes and the duty exemption connected to CSOK. The multigenerational family housing support that depends on the number of children and the 50% support in renovation projects for families with children have been available since 1 January 2021, and the subsidised interest home renovation loans that provide own funds for such projects have been available since 1 February.

2021 was a record year for retail and housing loans. Disbursement of retail loans grew by about 20% as compared to 2020. The monthly amount disbursed typically was over HUF 200 billion / month. With approximately 50%, housing loans represent the largest share, followed by the "Childbirth Incentive Loan", the importance of which increased and which dominated the loan market, and because of its favourable conditions the share of regular housing loans shrank, then by personal and other loans.

The APR levels for housing loans were 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 2021 loans with a rate fixed for at least 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 its subsidiaries (hereinafter referred to as "FundamentaGroup") continue to provide loans with set conditions throughout the loan term.

In 2021 MNB introduced its low-interest loan that can be drawn for particularly energy-efficient homes (Green Home Program) as a great innovation. On the one hand, this is currently the most favourable type of loan, on the other hand, it is an indication for the market of MNB's commitment to sustainability.

In 2021 the number of issued building permits for houses increased relative to 2020 in all types of settlements. According to the real estate market report of MNB issued in 2021, the number of real estate market transactions between private individuals increased significantly in the first half of 2021, then in H2 it stayed at the previous year's level. There were differences in the development of housing prices: turnover in urban agglomerations and around the country was more intensive, in Budapest, larger towns and agglomerations prices continued to rise considerably. In this respect, there are significant differences between regions around the country and the settlements within the individual regions.

## 1.3. Legal environment influencing the activity of home savings and loan associations

In 2021, the Company's business continued to be significantly impacted by the government measures taken in response to the pandemic, with a number of government decrees published this year in connection with the state of emergency and pandemic preparedness. After the government extended the general moratorium on repayments at the end of 2020 in an emergency decree, it prolonged it once more until 30 September 2021 in Government Decree 317/2021 (VI.9). Government Decree 536/2021 (IX.15) amending Government Decree 637/2020 (XII.22) on the introduction of special rules on the moratorium on loan repayments in the state of emergency extended the moratorium for certain social groups until 30 June 2022. Applications for an extension of the moratorium could be made by those whose household disposable income decreased on a prolonged basis after 18 March 2020, jobseekers, persons in public employment, persons with a child under the age of 25 at the time of application, persons who have a child with a disability over the age of 25, persons expecting children, and pensioners. The government also extended the general moratorium for everyone one more time, until 31 October 2021, to give everyone time to submit their claims. In compliance with the legal requirements, we sent a letter to debtors with the content specified in the Decree of the Prime Minister's Chief of Staff No. 6/2021 (IX.15), who could indicate in the form attached to the letter whether they wished to make use of the moratorium. The MNB also called upon financial institutions in an Executive Circular not to charge contract amendment fees for early repayment by customers of interest and fees accrued during the payment moratorium.

In addition, the Supervisory Authority issued a number of other guidance documents in the form of executive circulars, including the specific requirements for FGS Green Home Program home loans, and amended its "Executive Circular on Financial Institution Requirements Regarding the Assessment of Own Funds for Residential Mortgage Loans", which was significant in terms of the change to the requirements on the inclusion of childbirth incentive loans as own funds.

The laws governing the operation of home savings and loans associations directly did not change.

Other legislative changes affecting the Company brought on by the state of emergency:

- Act XCIX of 2021 on transitional rules in relation to state of emergency
- Government Decree 229/2021 (V.5) on different measures applicable to auctioning and evicting people from immovable property during the state of emergency
- Government Decree 606/2021 (XI.5) on the different application of Act CV of 2015 on the Debt Settlements of Natural Persons in connection with the loan repayment moratorium

Other legal changes:

- Act I of 2012 on the Labour Code
- Act XCIII of 1993 on Occupational Safety
- Act V of 2013 on the Hungarian Civil Code
- MNB Decree 32/2014 (IX.10) on the regulation of income-based repayments and loan-to-value ratios

Government Decree 337/2017 (XI.14) on reducing the housing mortgage debts of families with three or more children

# 2. STRATEGY AND GOALS OF THE FUNDAMENTA GROUP

## 2.1. Strategy of the Fundamenta Group (2021-2023)

In our strategy in force, alongside the goal of establishing a home financing and housing ecosystem, the following four paths were identified. Our objectives are still valid; the strategic goals were adjusted in light of the COVID-19 pandemic and approved in May 2021 by the General Meeting.

- **Growth**: we see further potential for growth in saving for housing purposes and in lending for housing purposes, 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 goals for us.
- **Efficiency**: with market competition intensifying, we as service providers will be successful if we understand customers' needs and can satisfy them more quickly, simply and less expensively. Our digitalisation efforts are also 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 the subsidiary Pénzügyi Kft. and introducing new housing savings accounts, the Company started the development of the "Housing Ecosystem" in 2019, which means we are able to support our customers in more and more areas of housing by entering new market segments. In 2020 the Company entered the real estate brokerage market through its subsidiary Fundamenta Értéklánc Kft. As a part of this, in 2021 we successfully launched our mass real estate brokerage services.

One key change in 2020 and 2021 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

The 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.

In 2022 we will be affected by the development of the market environment: the higher inflation and market interest, the Green Home Program and sustainability requirements of MNB, thus the main challenge for the Company will be developing further 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 operate on a sustainable basis in the coming years as well.

To ensure sustainable growth in the long run we still have a key strategic goal of fine-tuning, developing and motivating our sales channels.

Our 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 customer and partner demands and in improving operating efficiency, which is formulated as a strategic objective.

We carry out constant fine-tuning to raise risk awareness: the goal is to preserve the outstanding quality of the Company's housing loan portfolio and keep our operational risks low.

The 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 the sales channels, improving operational efficiency, the high commitment of staff, the stable and favourable conditions of the products and the further growth expected in customer demand for products saving for the future.

## 3. SALES ACTIVITY

Sales performances in 2021 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 Group’s sales organisation working with Fundamenta-Lakáskassza Kft. as a tied agency continued to operate effectively, thanks to which about 96% of the new contracts were concluded by the Personal Banker network. The ratio of contracts concluded by Partner Sales amounted to 3%, while the share of the performance of Contact Center was 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.

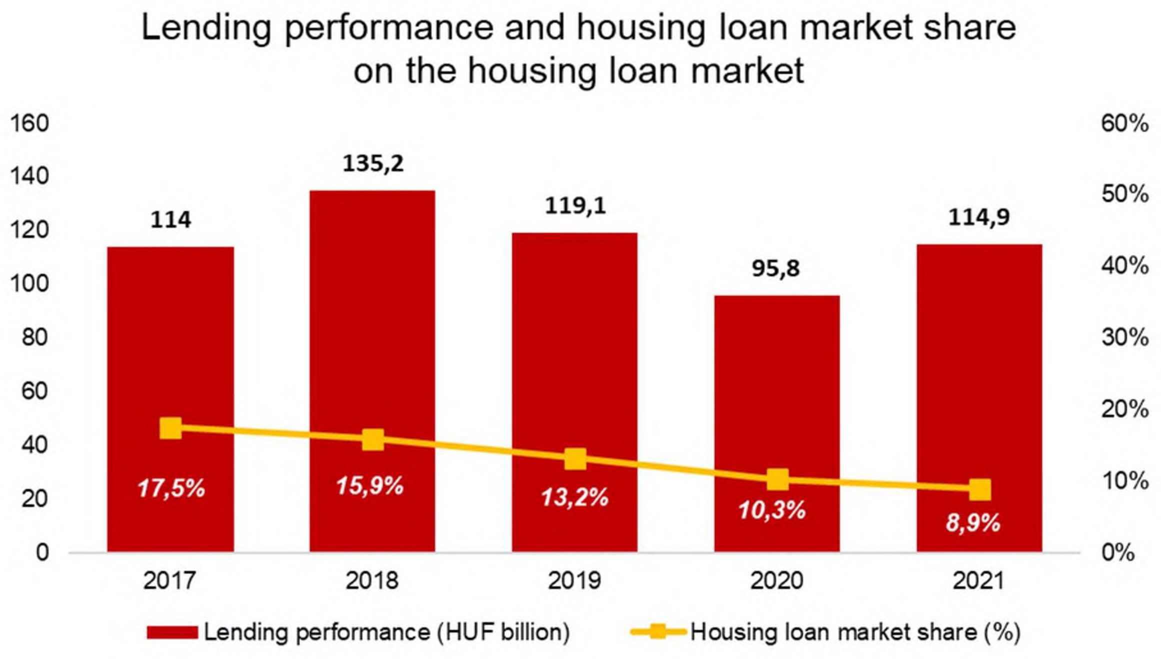
The committed monthly rate of new contracts concluded in 2021 increased compared to 2020, but the average contract amount decreased slightly by 2% compared to the previous year due to the altered tariff composition.

In 2021 among the new contracts the ratio of the shorter options, the 4-7-year products, accounted for approximately 40%; at the same time, almost 43% 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 the Home Planning Savings Account launched in 2019 and the “Growth” (Gyarapodó) and Children’s Savings Account introduced at the end of 2020. 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%.

2021 was a stronger year for the housing loan market than 2020. . By the end of the respective year the Hungarian housing loan market had expanded to approximately HUF 1,280 billion. 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.

The Company was a factor in this amount with new loan placements amounting to HUF 114.9 billion. On the housing loan market this resulted in a market share of around 9%. The household lending performance is supplemented with around HUF 4.0 billion in loans to multi-occupational buildings and housing cooperatives.




**The 2021 market share figure contains data up to November*

In terms of purpose of use, in 2021 at least 90% of the loans disbursed was used by the customers to purchase or renovate a home.

**Real estate brokerage**

2021 brought some radical changes after the difficulties of 2020. The processes refined based on the previous year's experiences and the system incentives bore fruit. Despite the weak results for Budapest and Pest county in 2020, we expanded the network to cover the country in January 2021, and continued our work throughout Hungary. Thanks to the ongoing recruitment, the number of real estate agents exceeded 150 by the end of 2021.

And it was not only the number of staff that increased, but also their performance. The number of concluded contracts rose throughout the year, from month to month and quarter to quarter, as did the volume of advertisements and sales. The objective set for the end of the year was reached by the middle of October, while by the end of the year we exceeded the target by more than 70%. The strongest areas were Central Hungary and North-Eastern Hungary, but we had successful transactions in almost every county.

Thus 2021 was a breakthrough year in all aspects from a real estate brokerage perspective. The task for 2022 is to continue down this path: primarily by raising the efficiency of the existing staff in processing addresses, but also by pressing ahead with recruitment.

**Intermediation of solar panel installations**

We managed to grow in the field of solar panel brokerage too, by almost 150% compared to 2020, but we cannot talk about a breakthrough here given the low basis we started from and the favourable market conditions.

Although the market environment remains very favourable, demand is extremely sensitive to prices, which hampers the market positions of our chosen partners. In March 2021, one of our solar panel construction partners left the retail market, so one of our most important tasks in 2021 was selecting a new partner. We will start working together with our new partner from 14 January 2022.

In 2021 we successfully tested our solar panel brokerage activity via the call centre, but its full-scale roll-out has yet to happen due to other priorities, and so in 2022 we intend to expand our activity with this new sales channel.

# 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 639.3 billion on the reporting date.

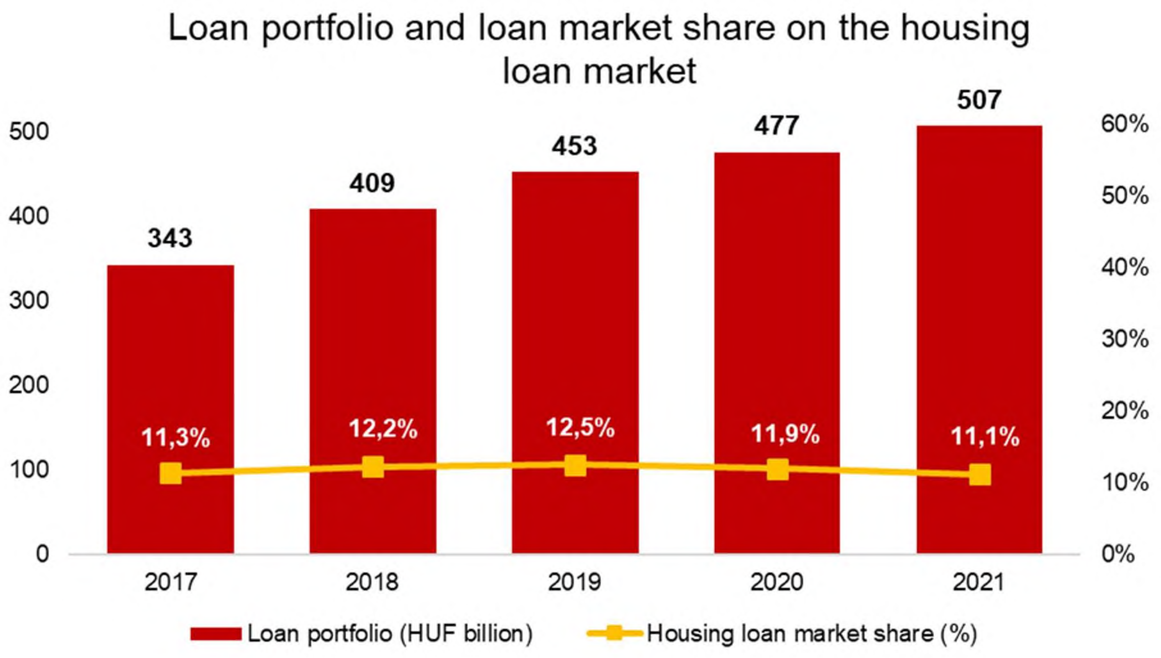
The vast majority of the deposits (95%) are still household deposits. Multi-occupational buildings and housing cooperatives account for 5%, roughly the same as the previous year.

Although the number of partial and full early repayments rose in 2021 as well, the loan portfolio still expanded considerably; the gross outstanding principal grew from the previous year's HUF 476.7 billion to HUF 507.2 billion, which represents more than 6.4% increase.

| Description | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Outstanding principal (HUF million) | 343,084 | 408,806 | 453,062 | 476,730 | 507,190 |
| Number of loan contracts | 112,652 | 121,751 | 125,124 | 120,398 | 117,138 |

The period-end loan portfolio rising to HUF 507.2 billion includes normal housing loans (roughly 11%), and bridging loans (89%), 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 the Fundamenta Group slightly decreased in 2021 compared to previous years, and at the end of 2021 the credit institution held almost 11% of the entire Hungarian housing loan portfolio.




**The 2021 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 2021 from HUF 675,3 billion to HUF 689.2 billion.

The joint portfolio of bank deposits and interest-bearing securities decreased during the reporting year from HUF 198.7 billion to HUF 180.2 billion. The changes in the portfolio are fully in line with our business plans. Within this portfolio the stock of interest-bearing securities fell by around HUF 37.2 billion, while the bank deposit portfolio rose significantly, by HUF 18.8 billion. The vast majority, almost 93.8% of the bank deposit portfolio consisted of deposits placed with the central bank, and we placed 6.2% with resident credit institutions primarily in foreign currencies. The change in the breakdown of the deposit and securities portfolio was primarily due to the sale in Q4 of a significant portion of our securities with a remaining term shorter than one year, because the significant yield spread caused by the central bank rate hikes and the significant excess liquidity on the short side of the yield curve, as well as the need to manage the reinvestment risk of securities close to maturity justified this move.

The duration of fixed-rate monetary and capital market portfolios dropped from 2.9 to 2.1 within one year. This change was also caused by the intensifying interest rate hike expectations, in addition to the fact that within the framework of our accounting policies we constantly shape our balance sheet structure in order to support our core activity appropriately.

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 710,920 million, which represents growth of around 1.8% compared to the previous year. Most of this growth stems from the 1.2% increase in liabilities to customers.

The Company’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 36,575 million. Provisions in the reporting year totalled HUF 1,152 million. The largest item under provisions (HUF 367 million) is the provision recorded for retention commission expenses. In line with the IFRS standard, the settlement provision (HUF 6,959 million net) is recognised as an equity component.

The Company closed 2021 with a profit before tax of HUF 7,634 million and profit after tax of HUF 6,210 million, both considerably up on 2020. The Company does not plan to pay dividend from its 2021 profit.

The profit before tax exceeds the planned result. Below we present the main reasons for the deviations from the planned figures.

- Return on investments

The gross investment portfolio this year grew in line with the plans, by HUF 13.9 billion, although not so significantly as in previous years. In contrast, the profit from non-customer-related receivables (securities, bank deposits) exceeds the planned level. This is owing primarily to the increase in interest rates in the last quarter.

- Net commission income/expense

Given that the home savings sales performance exceeded the planned figures, commission expenses were slightly higher than planned. In the case of loans, disbursement was 17 percent up the planned level, thus related commission expenses also exceeded the planned figure. The items paid as acquisition commissions are 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 2021 amounting to HUF 1,152 million. The HUF 3,282 million account-opening fee recorded for the new contracts sold and the increased contracts was accounted for using the effective interest method under interest expense over the term of the contracts, and so did not influence the 2021 profit directly.

- Costs

Personnel expenses increased by 12% compared to the previous year. The increase was significant due to the low base figure, but it was in line with plans. Material-type expenses were 14% up on the previous period, which is attributable to the significant but planned increase in payment volumes. Actual figures of these cost types also were in line with plans, only the NDIF fee represented a deviation from the plan; it was almost 20% up on the previous year. Depreciation exceeded the prior-year figure by 3%.

- Impairment allowance for loans

In 2021 as well 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 by HUF 323 million.

- 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 0.7 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 in such a way that they support its secure operations. 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. 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 2021 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 of the Fundamenta Group was 570 by the end of the financial year, of which 46 were employed part-time.

The employment policy of the Fundamenta Group in 2021 was still defined by adjustments to the pandemic, alongside business priorities and implementing the corporate strategy. During our operations the health of our staff and customers and the implementation of hybrid working were the key factors.  .

As teleworking and hybrid working became more common, tasks related to work organisation also changed. Training and organisational development programmes as well as staff information forums were organised flexibly, in line with the prevailing epidemiological requirements. The number of learning materials available online was further expanded, with a particular focus on developing digital skills, customer focus and operational efficiency. 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. In 2021 the performance appraisal also was carried out online.

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. The vaccination uptake was supported by giving staff a day off.

The changing operating conditions are having an impact on employee experiences and the company culture. We took part in an engagement survey in 2021 with a very high participation rate of 92%, in order to target an improvement of our performance based on the results.

The 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, the Company 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.

The Company’s variable salary system (bonuses and commissions) acts as an incentive, enabling us to recognise the outstanding performance of staff.

Because of the pandemic we saw a temporary consolidation on the labour market; however, since the second half of the year attracting and retaining talented employees, sought-after digital personnel has been a challenge again. 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. . 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.

## 7. ENVIRONMENTAL CONSCIOUSNESS

In Hungary households are the major energy consumers as end-users; the dominant part of the energy consumed is used for heating. We are proud that most of the home financing secured by our clients with the help of our products contributes to reducing population energy use and thus environmental pollution via their renovation, new home purchasing and building goals.

The solar advisory services provided by Értéklánc Kft. also contribute to making the energy consumption of our customers more environmentally friendly.

The objective of the Digital Transformation strategy adopted in 2021 is for the entire Group to help reduce our carbon footprint.

In its operations our Company pays special attention to its sustainability goals and principles, and compliance with related measures is a key goal. One way to achieve this is to reduce the adverse effect of our operations on the environment.

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.

In the framework of the Green Recommendation issued by MNB in 2021 we carried out our self-assessment and as a result we defined further actions.

# 8. CORPORATE SOCIAL RESPONSIBILITY

The main goal of the Fundamenta "Gondoskodás" Foundation established in January 2013 – besides its key role in social responsibility – is to support disadvantaged families often raising sick children, as well as the institutions helping and welcoming them.

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. Our tenders entitled "A Dream is Born" (*Álom születik*) enable us to help socially deprived families, who often raise sick children. Our various fundraising campaigns in 2021 meant we could help additional families. We have been a public-benefit foundation since 2016, so we are entitled to the 1% of personal income tax allocated by private individuals.

Fundamenta believes improving the financial literacy and financial know-how of the next generation is crucially important, which is why we decided not for the first time to support the "Legyél Te is Pénzügyi Junior klasszis!" student competition in 2021, too. Several thousands of students registered for the spring and autumn rounds of 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-Lakáskassza Zrt., 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.
- 9700 Szombathely, Szófia u. 20.

# 10. SUBSEQUENT EVENTS

As of 1 January 2022 the Company returned to the lessor Green Urban Elegant Kft the office space previously leased to 3E International Kft. and 5 car parks, which reduced the leased office space by more than half.

There was no other 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-Lakáskassza Zrt. 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 general laws relating to credit institutions.

**Our 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 total contractual relationship can be even 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.

**The Fundamenta Group is a significant player in the field of collection of housing deposits and lending for housing purposes:**

- following the termination of new business acquisition activities of the competitors, our Company is the only entity that concludes new home savings contracts,
- 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 10% of retail lending for housing purposes.

The 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 the 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.

The 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.

**Operating model of Fundamenta Értéklánc Kft.:**

Based on its operating model, Értéklánc Kft. carries out the coordination tasks necessary to operate the products. 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.

2021 brought some radical changes after the difficulties of 2020. The processes refined based on the previous year's experiences and the system incentives bore fruit. Despite the weak results for Budapest and Pest county in 2020, we expanded the network to cover the country in January 2021, and continued our work throughout Hungary. Thanks to the ongoing recruitment, the number of real estate agents exceeded 150 by the end of 2021.
And it was not only the number of staff that increased, but also their performance. The number of concluded contracts rose throughout the year, from month to month and quarter to quarter, as did the volume of advertisements and sales. The objective set for the end of the year was reached by the middle of October, while by the end of the year we exceeded the target by more than 70%. The strongest areas were Central Hungary and North-Eastern Hungary, but we had successful transactions in almost every county.
Thus 2021 was a breakthrough year in all aspects from a real estate brokerage perspective. The task for 2022 is to continue down this path: primarily by raising the efficiency of the existing staff in processing addresses, but also by pressing ahead with recruitment.

## 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 the 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's 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 Magyar Nemzeti 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.

The 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 Webbankár 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**

The 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. The Fundamenta Group is committed to ensuring people are treated with dignity and respect.

The Fundamenta Group's Human rights policy observes the basic principles of international human rights elaborated in the Universal Declaration of Human Rights. The 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 the Fundamenta Group, management methods, with particular regard to the issues listed in point 2

The Fundamenta Group 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 the 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, the 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 2 are related to operational risks.

Identifying operational risks early and carrying out a detailed analysis help protect the Fundamenta Group against events impairing its good reputation, improve the quality of services, boost the external perception and rating of the Fundamenta Group, 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 the 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 2021: 695,000 deposit and loan contracts, with a contractual amount of almost HUF 3,542 billion.
- Savings quality (actual savings/expected savings, based on 2021 average): 78.0%.
- Total customer savings in 2021: HUF 118 billion.

Budapest, 22 February 2022

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|---|---|
| ____________________ | ____________________ |
| **Bernadett Tátrai** | **Rainer Kaschel** |
| Chairwoman of the Board, | Member of the Board |
| Chief Executive Officer | |