Takarék Mortgage Bank Plc.

Annual report and
Independent Auditor`s Report

December 31, 2018

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarék Mortgage Bank Plc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Takarék Mortgage Bank Plc. (the „Bank”) for the year 2018 which comprise the balance sheet as at December 31, 2018 - which shows an equal amount of total assets and total liabilities of HUF 333,292 million and net profit for the year of HUF 2,271 million-, as well as the related profit and loss account for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (the „Accounting Act”) effective in Hungary.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor’s Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the “Rules of conduct (ethical rules) of the auditor profession and the disciplinary process” of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the “Code of Ethics for Professional Accountants” (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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	Related audit procedures
Individual assessed impairment of non-performing loans	
The net value of loans and advances to customers comprise 20% of the total assets. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of determination of individual assessed impairment of loans. The most significant assumptions applied in provisioning calculation are the followings: - valuation of collaterals, - estimated time to realize collaterals, - probability of default - estimate that future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of individual assessed impairment of non-performing loans loans was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - evaluate internal controls relating to origination and monitoring of loans, - evaluate of specific loan impairments with random sample, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, -evaluate the subsequent events (sales of loan portfolio), their effects on financial statements.

Other Information:

Other information comprises the information included in the “Corporate Governance Report” at Bank and the business report of the Bank for 2018, but does not include the financial statements and our auditor’s report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Bank for 2018 corresponds to the financial statements of the Bank for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided. As the Bank is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to the going concern principle, and preparing the financial statements using the going concern basis of accounting. Management must apply the going concern principle, unless the use of this principle is precluded by any provision, or if any fact or circumstance prevails, which precludes the Bank to continue as a going concern.

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

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 27, 2018 and our uninterrupted engagement has lasted for 7 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on April 2, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the financial statements.

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

Budapest, April 2, 2019

The original Hungarian version has been signed.

Tamás Horváth
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 003449

Takarék Mortgage Bank Co Plc

Annual Report

31 December 2018

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(Translation)

Budapest, 2 April 2019

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
		ASSETS:		
1	**1.**	**Cash in hand, balances with central banks**	**369**	**335**
2	**2.**	**Treasury bills**	**28 795**	**31 515**
3		a) held for dealing	28 795	31 515
4		b) held for investment	0	0
5	2/A	Revaluation difference on treasury bills	0	0
6	**3.**	**Loans and advances to credit institutions**	**147 255**	**182 765**
7		a) due on demand	280	979
8		b) other receivables from financial services	146 975	181 786
9		ba) maturity up to one year	14 637	26 548
10		Of which: – to affiliated undertakings	4 970	17 357
11		– to significant undertakings	0	0
12		– to other undertakings with participating interest	0	0
13		– to the National Bank of Hungary	0	0
14		– central counterparties	0	0
15		bb) maturity over one year	132 338	155 238
16		Of which: – to affiliated undertakings	64 064	46 710
17		– to significant undertakings	0	0
18		– to other undertakings with participating interest	0	0
19		– to the National Bank of Hungary	0	0
20		– central counterparties	0	0
21		c) receivables from investment services	0	0
22		Of which: – to affiliated undertakings	0	0
23		– to significant undertakings	0	0
24		– to other undertakings with participating interest	0	0
25		– central counterparties	0	0
26	3/A	Revaluation difference on receivables due from credit institutions	0	0
27	**4.**	**Loans and advances to customers**	**75 504**	**67 597**
28		a) receivables from financial services	75 504	67 597
29		aa) maturity up to one year	13 487	9 829
30		Of which: – to affiliated undertakings	0	0
31		– to significant undertakings	0	0
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	62 017	57 768
34		Of which: – to affiliated undertakings	0	0
35		– to significant undertakings	0	0
36		– to other undertakings with participating interest	0	0
37		b) receivables from investment services	0	0
38		Of which: – to affiliated undertakings	0	0
39		– to significant undertakings	0	0
40		– to other undertakings with participating interest	0	0
41		ba) receivables from investment service activities on the stock exchange	0	0
42		bb) receivables from over-the-counter investment service activities	0	0
43		bc) receivables from investment services to customers	0	0

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
44		bd) receivables from central counterparties	0	0
45		be) other receivables from investment services	0	0
46	4/A	Revaluation difference on receivables due from customers	0	0
47	**5.**	**Debt securities including fixed-income securities**	**11 776**	**7 592**
48		a) securities issued by local authorities and by other public entities (excluding Treasury bills issued by Hungarian state and securities issued by the National Bank of Hungary)	0	0
49		aa) held for dealing	0	0
50		ab) held for investment	0	0
51		b) securities issued by other entities	11 776	7 592
52		ba) held for dealing	11 776	7 592
53		Of which: – to affiliated undertakings	0	0
54		– to significant undertakings	0	0
55		– to other undertakings with participating interest	0	0
56		– repurchased own debt securities	0	0
57		bb) held for investment	0	0
58		Of which: – to affiliated undertakings	0	0
59		– to significant undertakings	0	0
60		– to other undertakings with participating interest	0	0
61	5/A	Revaluation difference on debt securities and fixed-income securities	0	0
62	**6.**	**Shares and other variable-yield securities**	0	0
63		a) shares and equity stakes held for dealing	0	0
64		Of which: – to affiliated undertakings	0	0
65		– to significant undertakings	0	0
66		– to other undertakings with participating interest	0	0
67		b) other variable-yield securities	0	0
68		aa) held for dealing	0	0
69		bb) held for investment	0	0
70	6/A	Revaluation difference on shares and other variable-yield securities	0	0
71	**7.**	**Shares and participating interests held for investment purposes**	**10**	**10**
72		a) shares and participating interests	10	10
73		Of which: – shares and participating interests in credit institutions	0	0
74		b) revaluation surplus on shares and participating interests	0	0
75		Of which: – shares and participating interests in credit institutions	0	0
76	7/A	Revaluation difference on shares and participating interests held for investment purposes	0	0
77	**8.**	**Shares and participating interests in affiliated undertakings**	**31 978**	**31 978**
78		a) shares and participating interests in affiliated undertakings	31 978	31 978
79		Of which: – shares and participating interests in credit institutions	31 978	31 978
80		b) revaluation surplus on shares and participating interests in affiliated undertakings	0	0
81		Of which: – shares and participating interests in credit institutions	0	0
82	**9.**	**Intangible assets**	**429**	**383**
83		a) intangible assets	429	383
84		b) revaluation surplus on intangible assets	0	0

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

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in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
85	**10.**	**Tangible fixed assets**	**317**	**196**
86		a) tangible fixed assets for financial and investment services	317	196
87		aa) land and buildings	105	63
88		ab) technical equipment, fittings and vehicles	212	133
89		ac) fixed assets in the course of construction	0	0
90		ad) advance payments on constructions	0	0
91		b) tangible fixed assets servicing non-financial and non-investment activities	0	0
92		ba) land and buildings	0	0
93		bb) technical equipment, fittings and vehicles	0	0
94		bc) fixed assets in the course of construction	0	0
95		bd) advance payments on constructions	0	0
96		c) revaluation surplus on tangible fixed assets	0	0
97	**11.**	**Own shares**	**207**	**207**
98	**12.**	**Other assets**	**3 148**	**1 515**
99		a) stocks (inventories)	129	22
100		b) other receivables (from non-financial and non-investment securities)	3 019	1 493
101		Of which: – to affiliated undertakings	801	49
102		– to significant undertakings	0	0
103		– to other undertakings with participating interest	0	0
104	12/A	Revaluation difference on other receivables	0	0
105	12/B	Positive revaluation difference on derivative transactions	0	0
106	**13.**	**Prepayments and accrued income**	**4 043**	**9 199**
107		a) accrued income	3 561	5 217
108		b) prepayments	482	3 982
109		c) deferred charges	0	0
110		**TOTAL ASSETS**	**303 831**	**333 292**
		From this: - CURRENT ASSETS [1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12+ a 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, 12/B]	*72 699*	*78 520*
		- FIXED ASSETS [2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 + a 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A, 12/B]	*227 089*	*245 573*

Date: Budapest, 2 April 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy Chief Executive Officer

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
		LIABILITIES		
111	**1.**	**Liabilities to credit instiutions**	**46 664**	**12 545**
112		a) due on demand	0	0
113		b) liabilities from financial services with agreed maturity dates or periods of notice	46 664	12 545
114		ba) maturity up to one year	46 664	12 545
115		Of which: – to affiliated undertakings	46 664	11 328
116		– to significant undertakings	0	0
117		– to other undertakings with participating interest	0	0
118		– to the National Bank of Hungary	0	0
119		– central counterparties	0	0
120		bb) maturity over one year	0	0
121		Of which: – to affiliated undertakings	0	0
122		– to significant undertakings	0	0
123		– to other undertakings with participating interest	0	0
124		– to the National Bank of Hungary	0	0
125		– central counterparties	0	0
126		c) liabilities from investment services	0	0
127		Of which: – to affiliated undertakings	0	0
128		– to significant undertakings	0	0
129		– to other undertakings with participating interest	0	0
130		– central counterparties	0	0
131	1/A	Revaluation difference on liabilities due to credit institutions	0	0
132	**2.**	**Liabilities to customers**	**612**	**652**
133		a) saving deposits	0	0
134		aa) due on demand	0	0
135		ab) maturity up to one year	0	0
136		ac) maturity over one year	0	0
137		b) other liabilities from financial services	612	652
138		ba) due on demand	580	626
139		Of which: – to affiliated undertakings	0	0
140		– to significant undertakings	0	0
141		– to other undertakings with participating interest	0	0
142		bb) maturity up to one year	32	26
143		Of which: – to affiliated undertakings	0	0
144		– to significant undertakings	0	0
145		– to other undertakings with participating interest	0	0
146		bc) maturity over one year	0	0
147		Of which: – to affiliated undertakings	0	0
148		– to significant undertakings	0	0
149		– to other undertakings with participating interest	0	0
150		c) liabilities from investment services	0	0
151		Of which: – to affiliated undertakings	0	0
152		– to significant undertakings	0	0
153		– to other undertakings with participating interest	0	0

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
154		ca) liabilities from investment service activities on the stock exchange	0	0
155		cb) liabilities from over-the-counter investment service activities	0	0
156		cc) liabilities to customers from investment services	0	0
157		cd) liabilities from central counterpartiess	0	0
158		ce) other liabilities from investment services	0	0
159	2/A	Revaluation difference on liabilities due to customers	0	0
160	**3.**	**Liabilities from issued debt securities**	**187 172**	**249 186**
161		a) issued bonds	187 172	249 186
162		aa) maturity up to one year	30 218	20 968
163		Of which: – to affiliated undertakings	1 415	
164		– to significant undertakings	0	0
165		– to other undertakings with participating interest	0	0
166		ab) maturity over one year	156 954	228 218
167		Of which: – to affiliated undertakings	11 354	12 727
168		– to significant undertakings	0	0
169		– to other undertakings with participating interest	0	0
170		b) other debt securities	0	0
171		ba) maturity up to one year	0	0
172		Of which: – to affiliated undertakings	0	0
173		– to significant undertakings	0	0
174		– to other undertakings with participating interest	0	0
175		bb) maturity over one year	0	0
176		Of which: – to affiliated undertakings	0	0
177		– to significant undertakings	0	0
178		– to other undertakings with participating interest	0	0
179		c) Certificates (qualified as securities according to the Act on Accounting but not definied as such by the Act on Securities)	0	0
180		ca) maturity up to one year	0	0
181		Of which: – to affiliated undertakings	0	0
182		– to significant undertakings	0	0
183		– to other undertakings with participating interest	0	0
184		cb) maturity over one year	0	0
185		Of which: – to affiliated undertakings	0	0
186		– to significant undertakings	0	0
187		– to other undertakings with participating interest	0	0
188	**4.**	**Other liabilities**	**1 240**	**688**
189		a) maturity up to one year	1 240	688
190		Of which: – to affiliated undertakings	567	382
191		– to significant undertakings	0	0
192		– to other undertakings with participating interest	0	0
193		– pecuniary contribution of members at credit cooperatives	0	0
194		b) maturity over one year	0	0
195		Of which: – to affiliated undertakings	0	0
196		– to significant undertakings	0	0
197		– to other undertakings with participating interest	0	0
198	4/A	Negative revaluation difference on derivative transactions	0	0

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	31 December, 2017	31 December, 2018
a	b	c	d	e
199	**5.**	**Accruals and deferred income**	**9 215**	**9 424**
200		a) accrued liabilities	4 576	3 972
201		b) accrued costs and expenses	4 639	5 452
202		c) deferred income	0	0
203	**6.**	**Provisions**	**1 211**	**557**
204		a) provisions for pensions and similar obligations	60	11
205		b) risk provisions for off-balance sheet items (for contingent and future labilities)	26	3
206		c) general risk provision	0	0
207		d) other provisions	1 125	543
208	**7.**	**Subordinated liabilities**	**0**	**0**
209		a) subordinated borrowings	0	0
210		Of which: – to affiliated undertakings	0	0
211		– to significant undertakings	0	0
212		– to other undertakings with participating interest	0	0
213		b) pecuniary contribution of members at credit cooperatives	0	0
214		c) other subordinated liabilities	0	0
215		Of which: – to affiliated undertakings	0	0
216		– to significant undertakings	0	0
217		– to other undertakings with participating interest	0	0
218		– to other entities	0	0
219	**8.**	**Subsribed capital**	**10 849**	**10 849**
220		Of which: repurchased own shares at face value	25	25
221	**9.**	**Subsribed but unpaid capital (-)**	**0**	**0**
222	**10.**	**Capital reserves**	**52 747**	**52 747**
223		a) share premium	52 747	52 747
224		b) other	0	0
225	**11.**	**General reserves**	**460**	**712**
226	**12.**	**Retained earnings (accumulated profit reserve) (±)**	**-10 687**	**-6 546**
227	**13.**	**Legal reserves**	**207**	**207**
228	**14.**	**Revaluation reserve**	0	0
229		Value-adjusted reserves	0	0
230		Revaluation reserves	0	0
231	**15.**	**Profit or loss for the financial year (±)**	**4 141**	**2 271**
232		**TOTAL LIABILITIES**	**303 831**	**333 292**
233		*Of which: - SHORT TERM LIABILITIES [1.a) + 1.ba) + 1.c) + 1/A + 2.aa) +2 .ab) + 2.ba) + 2.bb) + 2.c) + 2/A + 3.aa) +3.ba) + 3.ca) + 4.a) + 4/A]*	*78 734*	*13 885*
234		*- LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]*	*156 954*	*249 186*
235		*-EQUITY (CAPITAL AND RESERVES) [8-9+10+11±12+13+14 ±15]*	*57 717*	*60 240*

Item No	Identification of item	31 December, 2017	31 December, 2018
236	CONTINGENT LIABILITIES	9 812	15 700
237	FUTURE LIABILITIES	953	3 854
238	**TOTAL OFF-BALANCE SHEET LIABILITIES**	**10 765**	**19 554**
239	COLLATERALS	214 848	239 933
240	FUTURE RECEIVABLES	1 121	9 244
241	**TOTAL OFF-BALANCE SHEET ASSETS**	**215 969**	**249 177**

Date: Budapest, 2 April 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy Chief Executive Officer

Takarék Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2017	2018
a	b	c	d	e
1	**1.**	**Interest receivable and similar income**	**12 585**	**10 548**
2		a) interest income (receivable) from fixed-income securities	437	709
3		Of which: – from affiliated undertakings	0	0
4		– to significant undertakings	0	0
5		– from other undertakings with participating interest	0	0
6		b) other interest and similar income	12 148	9 839
7		Of which: – from affiliated undertakings	2 392	2 174
8		– to significant undertakings	0	0
9		– from other undertakings with participating interest	0	0
10	**2.**	**Interest payable and similar charges**	**9 495**	**8 142**
11		Of which: – to affiliated undertakings	280	554
12		– to significant undertakings	0	0
13		– from other undertakings with participating interest	0	0
14		**NET INTEREST INCOME**	**3 090**	**2 406**
15	**3.**	**Income from securities**	**393**	**234**
16		a) income from shares held for dealing (dividend, profit-sharing)	0	0
17		b) income from shares in affiliated undertakings (dividend, profit-sharing)	393	234
18		– to significant undertakings	0	0
19		c) income from other shares and participating interests	0	0
20	**4.**	**Commission and fees income**	**650**	**609**
21		a) from other financial services	650	609
22		Of which: – from affiliated undertakings	131	226
23		– to significant undertakings	0	0
24		– from other undertakings with participating interest	0	0
25		b) from investment services (except for income from trading activities)	0	0
26		Of which: – from affiliated undertakings	0	0
27		– to significant undertakings	0	0
28		– from other undertakings with participating interest	0	0
29	**5.**	**Commission and fee expense**	**1 211**	**1 421**
30		a) from other financial services	1 143	1 364
31		Of which: – to affiliated undertakings	1 081	1 275
32		– to significant undertakings	0	0
33		– from other undertakings with participating interest	0	0
34		b) from investment services (except for charges of trading activities)	68	57
35		Of which: – to affiliated undertakings	50	5
36		– to significant undertakings	0	0
37		– from other undertakings with participating interest	0	0
38	**6.**	**Net profit or net loss on financial operations**	**5 758**	**1 569**
39		a) income from other financial services	6 992	2 625
40		Of which: – from affiliated undertakings	0	0
41		– to significant undertakings	0	0
42		– from other undertakings with participating interest	0	0
43		- valuation difference	0	0
44		b) expenses from other financial services	1 234	1 056
45		Of which: – to affiliated undertakings	0	0
46		– to significant undertakings	0	0
47		– from other undertakings with participating interest	0	0
48		- valuation difference	0	0

Takarék Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2017	2018
a	b	c	d	e
49		c) income from investment services (income from trading activities)	0	0
50		Of which: – from affiliated undertakings	0	0
51		– to significant undertakings	0	0
52		– from other undertakings with participating interest	0	0
53		– value re-adjustment (increase) of securities for trade (not more than acquisition value)	0	0
54		- valuation difference	0	0
55		d) expenses from investment services (expenses from trading activities)	0	0
56		Of which: – to affiliated undertakings	0	0
57		– to significant undertakings	0	0
58		– from other undertakings with participating interest	0	0
59		– value adjustment (decrease) of securities for trade	0	0
60		- valuation difference	0	0
61	**7.**	**Other operating income**	**2 532**	**4 132**
62		a) incomes from non-financial and non-investment services	1 322	989
63		Of which: – from affiliated undertakings	1 286	971
64		– to significant undertakings	0	0
65		– from other undertakings with participating interest	0	0
66		b) other income	1 210	3 143
67		Of which: – from affiliated undertakings	34	1 014
68		– to significant undertakings	0	0
69		– from other undertakings with participating interest	0	0
70		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	0	0
71	**8.**	**General and administrative expenses**	**4 677**	**3 348**
72		a) Staff costs	1 451	413
73		aa) wages and salaries	1 032	311
74		ab) other staff costs	160	27
75		Of which: – social security contributions	0	1
76		= pension costs	0	1
77		ac) contributions on wages	259	75
78		Of which: – social security contributions	224	61
79		= pension costs	0	0
80		b) Other administrative expenses (material-type expenses)	3 226	2 935
81	**9.**	**Depreciation (value adjustments in respect of assets items 9 and 10)**	**143**	**117**
82	**10.**	**Other operating expenses**	**4 370**	**4 224**
83		a) expenses from non-financial and non-investment services	30	57
84		Of which: – to affiliated undertakings	0	0
85		– to significant undertakings	0	0
86		– to other undertakings with participating interest	0	0
87		b) other expenses	4 340	4 167
88		Of which: – to affiliated undertakings	2	30
89		– to significant undertakings	0	0
90		– to other undertakings with participating interest	0	0
91		– value adjustment (decrease) of stocks (inventories)	0	0
92	**11.**	**Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments**	**1 090**	**430**
93		a) value adjustments (decrease) in respect of loans and advances	1 035	425
94		b) provisions for contingent liabilities and commitments	55	5
95	**12.**	**Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments**	**3 999**	**3 267**
96		a) value re-adjustments (increase) in respect of loans and advances	3 892	3 239
97		b) use of provisions for contingent liabilities and commitments	107	28
98	**12/A.**	**General risk provision and use**	0	0

Takarék Mortgage Bank Public Limited Company

Profit and Loss Statement (Financial Institutuions) (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

Item No	Item No	Identification of item	2017	2018
a	b	c	d	e
99	**13.**	**Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**0**	**0**
100	**14.**	**Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**32**	**0**
101	**15.**	**Profit or loss on ordinary activities**	**4 963**	**2 677**
102		Of which: -PROFIT OR LOSS OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12+12/A-13+14)	3 671	1 745
103		– PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	1 292	932
104	**16.**	**Extraordinary income**	**0**	**0**
105	**17.**	**Extraordinary expense**	**0**	**0**
106	**18.**	**Extraordinary profit or loss (16-17)**	**0**	**0**
107	**19.**	**Profit or loss before taxation (±15±18)**	**4 963**	**2 677**
108	**20.**	**Tax payable**	**362**	**154**
109	**21.**	**Profit or loss after taxation (±19-20)**	**4 601**	**2 523**
110	**22.**	**Addition to and use of general reserve (±)**	**460**	**252**
111	**23.**	**Profit or loss for the financial year (±21±22)**	**4 141**	**2 271**

Date: Budapest, 2 April 2019

dr. Gyula László Nagy	Attila Mészáros
Chief Executive Officer	Deputy Chief Executive Officer

Takarék Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2018

(translation)

Budapest, 2 April 2019

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31 December 2018

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I. GENERAL NOTES

I/1. Description of Takarék Mortgage Bank Public Limited Company

Takarék Mortgage Bank Public Limited Company (hereinafter Takarék Plc., Takarék Mortgage Bank Plc., Bank) was established on 21 October 1997 under the name of FHB Land Credit and Mortgage Bank Company.

The Bank's share capital is HUF 10,849,030,000 Ft, the total amount of which was contributed in cash.

The share capital includes the following types of shares:

66,000,010 ordinary 100 HUF face value A Class registered shares

14,163,430 individual 100 HUF face value B Class (preference) shares

2,832,686 individual 1.000 HUF face value C Class ordinary shares

Takarék Mortgage Bank Plc.'s ownership structure

Shareholder	31 December 2018		31 December 2017	
	Holding%	Number of shares	Holding%	Number of shares
Ordinary shares (A Class) listed on BSE				
Domestic institutional investors	52.6	57,069,304	50.5	54,735,748
Foreign institutional investors	0.0	20,576	0.1	126,899
Domestic private investors	3.5	3,759,643	5.3	5,750,222
Foreign private investors	0.0	60,400	0.0	39,388
Employees. directors and senior management	0.0	0	0.0	11,517
Government held owner	4.5	4,832,225	4.5	4,832,225
Treasury shares	0.2	253,601	0.2	253,601
Other	0.0	4,261	0.2	250,410
Subtotal	*60.8*	*66,000,010*	*60.8*	*66,000,010*
Dividend preference shares (Series "B") listed on BSE				
Domestic institutional investors	13.1	14,163,430	13.1	14,163,430
Subtotal	*13.1*	14,163,430	*13.1*	14,163,430
Ordinary shares (Series "C") not listed on BSE				
Domestic institutional investors	26.1	2,832,686	26.1	2,832,686
Subtotal	*26.1*	2,832,686	*26.1*	2,832,686
Total	**100.0**	**82,996,126**	**100.0**	**82,996,126**

The Bank's operations are provided for by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (new Credit Institution Act), as well as Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.

The Bank's core business as a specialized credit institution includes provision of long-term loans secured by mortgaged properties as a collateral, and issue of special long-term securities (mortgage bonds).

On September 23, 2015 the Bank entered into the integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the former Bank Group are under the combined supervision of the MTB Magyar Takarékszövetkezeti Bank Ltd. (hereinafter MTB Ltd.) Group from 1th of January 2017 onwards.

From 24 September 2015 the joint and several responsibilities defined in the Section 4 of Article 1 of Szhitv cover also Mortgage Bank and Commercial Bank, according to the decision of the Board of Directors of MTB Ltd. The Takarék Mortgage Bank and Takarék Commercial Bank became member of the Guaranty Community of Savings Cooperatives.

In December 2017 the Bank sold the majority of their direct and indirect investments leaving Takarék Commercial Bank Ltd. amongst their shares unsold. The reporting of Takarék Commercial Bank is integrated into the consolidation cycle of the parent company MTB Ltd.

The services previously provided by Mortgage Bank (full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision and leasing activity), in 2018 are already provided by MTB to the Mortgage Bank and Takarék Commercial Bank Zrt., within the framework of SLA contract.

The Takarék Commercial Bank, as the agent of the Takarék Mortgage Bank Plc., is fully responsible for direct lending, furthermore performs loan aftercare and qualified loan management. Although, Takarék Commercial Bank, in order to have favourable funding costs, has majority of their loans refinanced by the Takarék Mortgage Bank Plc.

In 2018, the operation of Takarék Mortgage Bank is characterized by the following key data and indicators:

Data in million HUF	31 Dec 2017	31 Dec 2018	Change
Balance sheet total (million HUF)	303,831	333,292	9.7%
Refinanced mortgage loans (million HUF)	210,476	236,883	12.5%
Mortgage bonds outstanding (million HUF)	176,693	222,451	25.9%
Bonds outstanding (million HUF)	10,479	26,736	155.1%
Shareholders' equity (million HUF)	57,717	60,240	4.4%
Regulatory capital (million HUF)	230,782	233,499	1.2%
Profit or loss for the financial year (million HUF)	4,141	2,271	-45.2%
CIR (operating costs / net income) (%)	108.17%	54.51%	-49.5%
ROAA (return on average assets) (%)	1.44%	0.71%	-0.6% pt
ROAE (return on average equity) (%)	8.30%	3.85%	-3.6% pt

*The Regulatory capital includes the Profit of the year
**The index was calculated without the Banking tax

Members of the integration of Cooperative Credit Institution – including the Bank – shall inspect compliancy with prudential requirements at consolidation level. Exemption from fulfilling entity level compliance is ensured by the relating legislation and the Hungarian National Bank's subject-matter decision.

I / 2. Key elements of the accounting policy

The aim of the accounting policy is to set up the accounting of economic and financial events and establish the technicalities of accounting; to synchronize financial activities and their accounting; to determine the key operating principles and conditions of accounting in order to help the Bank's various investors understand and follow the company's actual financial position and profitability through the Bank's annual reports.

The accounting policy is based on the provisions of Act C of 2000. It applies Government Decree No. 250/2000 on the Special Provisions regarding the Annual Reporting and Book-Keeping Obligations of Credit Institutions and Financial Enterprises, and also observes the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, Act CXX of 2001 on the Capital Market, as well as relevant provisions of the Hungarian National Bank and the Ministry National Economy in order to assist the Bank in realizing its primary objectives.

Since the Takarék Mortgage Bank became the member of the Integration Organization of the Cooperative Credit Institutions (SZHISZ) it is directly subject to the integrated Accounting Policy and Evaluation regulation of assets, liabilities and other off-balance sheet items.

In 2018, by modifying the integration accounting policies it's the value adjustments of securities and real estate became possible. The Bank didn't make use of the possibility to adjust the value of the assets.

In accordance with the provisions of the Accounting Act, the Bank applies double-entry book keeping and issues annual reports.

The balance sheet is prepared in accordance with Annex 1 of Government Decree No. 250/2000 and the profit and loss statement is made in a vertical format, as required by Annex 2 of the same Decree.

The Bank's accounting systems

The Bank uses BANKMASTER for client registration, accounting and basic transactions, which transfers data by controlled posting into the Bank's general ledger, SAP integrated ERP system.

Error distorting true and fair view

Errors identified in the course of audits performed by external bodies or the internal audit department shall be considered to be errors distorting true and fair view for the purposes of the Bank if the shareholders' equity in the balance sheet of the business year before the year in which the error was disclosed changes by at least 20%.

Threshold of material and minor errors

Errors identified in the course of various audits shall always be considered to be material for the purposes of the Bank, if the aggregate impact of such errors, in the year in which the errors were disclosed, result in any changes (increases or decreases) in the shareholders' equity, financials or income in excess of 2% of the audited business year's balance sheet total. When the 2% of balance sheet total not exceeding of HUF 1 million, the margin for the above errors is HUF 1 million.

Balance sheet

Within the scope of the accounting principles the Bank set for the balance sheet date to be 31st December of the year of reporting. The balance sheet is prepared in 3 workdays after the balance sheet date.

Tangible Assets under the purchase value of HUF 100,000 shall be accounted in a lump sum by the Company as costs at the time of the purchase.

Balance sheet and off balance sheet foreign exchange liabilities and receivables shall be recorded by the Bank at the NBH's (National Bank of Hungary) exchange rate valid as of the balance sheet date.

Within accruals, apart from general terms, the Bank's special terms include the following: accrual of interest earned and owed, as well as accrual (for the time of maturity) of negative or positive variances (exchange rate variances) between the proceeds from the issue of interest-bearing securities and their par value. Accruals and deferrals shall be registered at contract value.

Liabilities to customers include credit related interest and capital repayments paid in by customers but not yet due as well as cash received as surety from customers based on customer contracts. The utilization of surety for credit repayment takes place in circumstances stipulated in the contract.

Profit and Loss Statement

The Profit and Loss Statement incudes the result of the actual fiscal year in question, while observing the provisions for the accumulation and accounting of credit institution reserves and impairment losses.

Depreciation and amortization on tangible and intangible assets is reported monthly pro rata, by including changes that occur during the year.

The Bank when accounting foreign currency swaps aiming liquidity, which usually mature within one year, examines the swaps not closed before balance sheet date and realizes the profit or loss proportionate to the current year in interest income or interest expense. Thereafter the Bank determines the foreign currency difference originating from the revaluation of swap related currency amount. These transactions are accounted as the foreign currency swaps for interest arbitrage according to the regulations of the Government Decree. Depending on the nature of profit or loss, profit is accounted to deferred income; loss is accounted to accrued expense, and will be released when the swap deal will be closed.

Notes to the Financial Statements

The notes to the financial statements contain the numerical data and narrative explanations, which help shareholders, investors and creditors to have a better understanding and analysis of certain lines in the balance sheet and the P/L statement. These notes provide additional information on the Bank's activities, as well as details on certain balance sheet and P/L data.

Depending on their contents, data are grouped by the Bank in the Notes to the financial statement in the following sections:

– General notes,
– Specific notes,
– Information.

Business Report

Apart from the events of the accounting period, the Bank discusses issues and plans with significant present and future reference in its Business Report.

The Business Report contains information on:

– the analysis of the Bank's activities and course of business with regards to the accounting period, as well as their future impact;
– significant events occurring after the balance sheet date;
– changes with an impact on the ownership structure;
– the human resources policy;
– the research and development;
– the presentation of the branches; and
– any additional information considered important by the Bank.

I / 3. Information

1. Information on shareholders with significant or majority interest

None of the Bank's shareholders has a majority interest under Act V of 2013 on Civil Code.

2. Information on the Bank's risks in excess

Members of the integration of Cooperative Credit Institution – including the Bank – shall inspect compliancy with prudential requirements at consolidation level. Exemption from fulfilling entity level compliance is ensured by the relating legislation and the Hungarian National Bank's subject-matter decision.

3. Compliance with mortgage lending provisions

- Within the total balance of mortgage loans, 99.46% have a maturity over five years compared to the minimum requirement of 80.0% as stipulated by Subsection (1) Section 5 of Act XXX of 1997.
- Total outstanding mortgage loan balance does not exceed 70% of the collateral value of real estate as provided for by subsection (3), Section 5 of Act XXX of 1997. The rate was 29.38% as of December 31, 2018.

4. Compliance with the provisions on investment

As at 31 December 2018 the Bank have the following investments:

TAKARÉK Commercial Bank Ltd.

The investments of the above detailed Bank are in conformity with Section 9(1) of Act XXX of 1997 providing limitations of direct and indirect ownership. As set for by Section 9(2) of the Act as well as the restricting for the investee activity and investment rate.

5. Compliance with the provisions on the issue of mortgage bonds

- As of December 31, 2018, surpassing the provisions of Subsections (1, 2a) Section 14 of Act XXX of 1997, the Bank's collateral exceeded the nominal value – HUF 222 451 million – of mortgage bonds outstanding. At the end of the reported period this consisted of principle outstanding, net of impairment, amounting to HUF 222 731 million considered as ordinary collateral.
- As of December 31, 2018, surpassing the provisions of Paragraphs (1, 2b) Section 14 of Act XXX of 1997, the Bank's interest on net ordinary collateral exceeded the interest on the nominal value of mortgage bonds outstanding, HUF 32 607 million. At the end of the period of reporting the interest on ordinary collateral net of impairment was HUF 46 533 million.
- On December 31, 2018 in accordance with the Article 14 (11) of Act XXX supplementary collateral was utilized through issuing securities in the capital value of 36 034 million HUF with the payment guaranty of the Hungarian State.
- Pursuant to Section 14(1) of the Act on Mortgage Banks and Mortgage Bonds mortgage banks must at all times have sufficient cover assets of a value higher than the sum of the face value and the interest on outstanding mortgage bonds. Pursuant to the provisions of Section 137(3) of Act XLVIII of 2004, as of 1 January 2006 mortgage banks must also at all time ensure cover for mortgage bonds at present value.

  The rules of calculating the present value of assets used as cover for mortgage bonds are set forth by Decree 40 of 2005 (9 December) by the Minister of Finance. The Decree provides for the present value of mortgage bonds and cover assets to be assessed for each banking day. In cases where the present value of cover assets does not exceed the present value of outstanding mortgage bonds in circulation the mortgage bank must proceed to supplement the missing cover as stipulated in the rules of collateral registration.

  Since the statutory provisions described above entered into effect Bank has established, on a daily basis, the present value of mortgage bonds as well as collateral relying on the zero coupon yield curve determined from the actual yield curve at any time, and ensures their adequacy.

  As of 31 December 2018 the present value of ordinary collateral was HUF 275 626 million and that of mortgage bonds was HUF 239 421 million, which means the present value of cover assets exceeded the present value of outstanding mortgage bonds in circulation.

  Pursuant to the provisions of the Decree by the Minister of Finance cited above the Bank has applied a quarterly sensitivity test since 2006 to check the availability, at present value, of collateral exceeding the nominal value and interest in HUF in the case of changes in interest rates and/or exchange rates. The effect of changes in the interest rate on present value is examined statically, by parallel shifting of the zero coupon yield curve 250 base points upwards and downwards. The static method of analysis is also used in the assessment of exchange rate risk as provided for by the Decree of the Minister of Finance.

The sensitivity analysis conducted on 31 December 2018 showed the surplus cover of the mortgage bonds in circulation and the present value of their coverage as required by the relevant statutory provisions.

6. Information on mortgage bonds issued

- As of 31 December 2018 the aggregate mortgage lending value of real estate serving as ordinary collateral was HUF 798 809 million.
- Liabilities from mortgage bonds issued by the Bank with a maturity exceeding five years amounted to HUF 68 800 million as of 31 December 2018.
- In addition to its more active issuance activities than in previous years, Takarék Mortgage Bank Plc. was 2018 also a busy year in terms of the total volume of repurchase it organized. The Bank organized repurchase of floating and fix rate mortgage bonds seven times in 2018 in total amount of HUF 80.5 billion. The repurchases affected eight different series: From FJ18NV1 more than 9 billion HUF, from FJ21NV01 mortgage bonds repurchase was executed two times in the nominal value of nearly 12 billion HUF. From FJ20NV03 mortgage bonds repurchase was two times 17.2 billion HUF, from FJ20NV04 mortgage bonds more than 10 billion HUF, from FJ20NV02 16.1 billion HUF, from FJ20NV01 601 million HUF, from FJ20NF02 3.5 billion HUF, from FJ23NF02 12 billion HUF during the above period. The repurchases trough reducing the liquidity and interest rate risks upgraded the asset-liability structure of Bank.

7. Information on the rating of banking activities, accounting of impairment and provisions

The Bank has carried out the rating of receivables and liabilities. On 31 December 2018 the portfolio of receivables and liabilities, which includes receivables from customers, off-balance contingencies, receivables from the loan bank and financial investments was HUF 289,421.7 million in total. As a result of the rating based on the Government decree and internal regulations 87.56% of the total portfolio is performing, 12.44 % is non-performing.

The Integrational Organization of Cooperative Credit Institutions (SZHISZ) prescribed for the TAKARÉK Group on the rating date of 31 December 2018. That average loss coverage of outstanding loans with overdue over 90 days must reach 65%.

As of 31 December 2018 the Bank recorded HUF 2,195.8 million impairment for receivables from clients and a risk provision of HUF 0.8 million for contingencies.

On basis of the qualification of strategic investments at the end of the year 2018 the Bank booked impairment in the amount of HUF 3 304 million to its subsidiary the Takarék Commercial Bank Ltd.

8. Information on general reserve

According to the new Credit Institution Act, in Paragraph. 83 §, Credit Institutions are required the make reserve before paying dividend and shares from their Earning after tax. The amount of the reserve cannot be more than 10% of their Earning after tax. In 2018 the Bank reserved HUF 252 million as general reserve.

9. Impairment of other receivables and liabilities, creation of provision

Based on the decision of the General Assembly and the Board of Directors, in 2016, the Bank joined a project initiated by MTB Ltd. The project is named „Process realization and inspection of savings deriving from the consolidation of the central areas of those involved in the integration".

The aim of the project is to exploit synergies resulted from merging of the head-office functions of the large banks and to conduct a peer review process along with process evaluation, which will provide an implementation plan to realize cost-saving opportunities and efficient centralized service processes. To cover the project's expected expenses the MTB Ltd., he Commercial Bank and the Mortgage Bank made a provision for retirement and severance grants in 2016, in total of HUF 227 million. Out of this amount, 167 million forints were used in 2017 and 49 million HUF in 2018 due to the reduction in the number of employees. The remaining provision is 11 million HUF.

The Bank has been intended to modernize or replace its current IT system. According to the information provided by Takarékinfó Ltd., which provides IT services, if the software stock becomes redundant, the Provider will dispose the software set serving the bank's. Therefore was made provision of 820.7 million forints to cover future expenses related to the Bank's assets in 2017 and this amount was used and release during 2018. The remaining provision is 64 million HUF.

In line with the new business strategy of Takarék Group the Bank expressed its intention to exchange further IT systems and implement improvements to existing systems in 2018. A provision of HUF 479 million was created for future costs to cover liabilities arising from contracts.

10. Information on the Bank's shares

The Bank assigned KELER Ltd. to maintain the Register of Shares in accordance with the relevant legal provisions.

Payment of dividends for the years 2003 through 2006 is also carried out by KELER Ltd. The income from the expired liabilities was booked as an extraordinary income on 30 June 2013.

In 2018 dividend payment has not been made.

11. Derivative deals

- As of 31 December 2018 the following OTC hedging futures are recorded by the Bank:
  - interest rate swaps for which the value of the future liabilities is 3 854 million HUF, the value of the related future receivables is 9 244 million HUF
  - the Bank does not have any future receivables or liabilities related to foreign exchange swaps as of 31 December 2018
- In relation to the OTC hedging interest rate swaps existing on 31 December 2018 the P/L statement already recorded HUF 484 million accrued interest as well as HUF 247 million interest expenditure.
- There were no future receivables and future liabilities from liquidity swaps at the end of period.

12. Other banking information

- In accordance with the Government Decree the value of pending interest was HUF 938 million as of 31 December 2018 (2017: HUF 1 424 million) and the value of pending interest type commission was HUF 81 million (2017: HUF 222 million). In the reported period the Bank received HUF 108 million from interest that was pending before the year of reporting. The Bank recognized HUF 9 million of this amount as accrued income in the 2017 financial statements.
- The principal receivable value of state guarantees for receivables was HUF 1 879 million (2017: HUF 2 371 million) and collateral value of deposits was HUF 26 million (2017: HUF 32 million) and the collateral value of liens amounted to HUF 799 815 million (2017: HUF 679 463 million).
- The portfolio of loan transactions with partner banks and savings cooperatives within syndicated lending was HUF 1 144 million as of 31 December 2018 (2017: HUF 1 573 million). The cooperation agreement with the credit institutions includes a deficiency guaranty and loss sharing in favour of the Bank. Within the deficiency guarantee the partner bank takes over a certain amount of liabilities which the Bank recorded as non-recurring losses/provision on loans and advances. The partner bank undertakes deficiency guarantee to the extent of lending losses suffered by the Bank that cannot be recovered by any other means. According to the loss-sharing agreement the syndicated partner undertakes 40-60% of losses/provision on loans and advances.
- Within the amounts of the receivables from customers the contractual value of restructured assets was HUF 4 121 million as of 31 December 2018 (2017: HUF 6 343 million); its value according to the registration was HUF 3 457 million (2017: HUF 4 042 million).
- On 31th December 2018 upon the request of the Takarék Mortgage Bank 34 terminated deals/loans were in foreclosure procedure. The total value of these deals on 31th December 2018 was HUF 148.8 million. In 2017 the number of terminated deals/loans were 26 in value HUF 369.5 million.

  During 2018, the Bank didn't initiate new foreclosure procedure.

  During 2018 the Takarék Mortgage Bank joined in 61 third party foreclosures.

  In all of 9 pieces of auctions (14 deals) completed in the current period, the real estate serving as collateral was auctioned by outside enforcement proceedings. The total purchase price achieved at the auction is HUF 50.8 million and the amount calculated for our Bank after the pay-out plan covered the debt to the Bank in four cases, the acting bailiff is still carrying on the proceedings in case of the other open transactions.

  In order to reduce losses from mortgage lending. the following real estate were taken over due to foreclosure by 31 December 2018.The data of the acquired real estate

Number	4 pieces
Legal characteristics	
Taken into possession	3 pieces
Taken into ownership. but taking possession	
not yet realized	1 piece
Sold from the properties received	1 pieces

- In the course of 2018 the Bank offered 40 pieces of properties (2017: 89 pieces) to the NET (National Asset Management Ltd). to which 68 pieces of transactions were related (2017: 163). From the offered properties in 2018 39 pieces of properties (2017: 288 pieces) were purchased in the amount of HUF 98 million and together with that 73 pieces (2017: 528 pieces) of transactions (receivables from customers) in the amount of HUF 241 million (2017: HUF 2 030 million) were closed till 31 December 2018.

- As of 31 December 2018. the amount of principal repayment from mortgages for the reported year was HUF 44 200 million. of which HUF 13 569 million was mortgage repayment from customers and 30 631 was repayment from credit institution refinancing.
- As set forth by the provisions of the Government Decree. during the preparation of the balance sheet the Bank has to move the amount of receivables and liabilities that is due in the year following the reported year from long term to short term receivables and liabilities. Accordingly, the Bank restructured HUF 9 829 million from long-term receivables from customers and HUF 14 048 million from long-term receivables from credit institutions into short-term receivables. From long-term liabilities HUF 14 232 million due to issued bonds HUF 6 736 million were moved to short-term liabilities.
- HUF 31 515 million of listed government securities were reported by the Bank in the 31 December 2018 balance sheet as treasury bills and similar securities.
- The closing balance of inventories contains purchased inventory amount to HUF 9 million, properties held for sale amounted to HUF 5 million and repossessed real estate amounted to HUF 11 million on 31 December 2018. For purchased inventories HUF 2 million, for the properties held for sale HUF 0.5 million impairment loss was recognized. For the repossessed real estate HUF 0.6 million impairment loss was recognized.
- The Expenditures on investment services" line item of the profit and loss statement recorded HUF 57 million sales expenditures related to the sales of mortgage bonds.
- As a result of sales of services within the Group companies. as of 31 December 2018 the Bank had receivables from subsidiary amounting to HUF 23 million (2017: HUF 633 million).

  The Bank recorded HUF 185 million liabilities for services extended by its subsidiary, Takarék Commercial Bank Ltd. (2017: HUF 533 million).

  The Takarék Mortgage Bank Plc. doesn't record in relation to the Takarék Commercial Bank Ltd. interbank deposit among its assets and liabilities.

13. Additional information

- The Bank has no pension payment obligations to its previous senior management members.
- The Bank did not provide long-term loans for its associated enterprise. The Bank did not create or use provisions for its subsidiary.
- The Bank did not record any export sales to countries within or outside of the European Union. The Bank did not receive any export subsidies.
- The Bank did not receive any disbursement without return from subsidy programs. Subsidy programs include subsidies and allocations disbursed from central government, local government and/or international funds, as well as other business enterprises for the upkeep and development of activities.
- The Bank did not engage in research and development activities in 2018.
- The Bank does not own any tangible assets intended for direct environmental protection purposes, nor any hazardous waste and pollutants. The Bank does not have any present or future environmental obligations or environmental protection costs.
- In 2018 the Bank was not a member of the National Deposit Insurance Fund not of any voluntary deposit insurance fund, institution protection fund or investor protection fund.
- The Bank's assets are not encumbered with mortgage or any other similar rights.
- The Bank did not carry out any reverse transactions in 2018.
- The Bank has HUF 10 million investment in the Integration Organization of the Cooperative Credit Institutions (SZHISZ)

14. Changes in the legal and regulatory environment and its effect on the financial statements of the Bank

- During the year, the Mortgage Bank continued to prepare for the introduction of mortgage financing adequacy ratio (JMM). Due to this, new refinancing agreements entered into with several new refinancing partners.
- The formerly established group of VAT status members amongst Takarék Group expired on February 23, 2018. As of May 1, 2018, the Bank joined the VAT subordinated group represented by MTB Ltd. VAT is not charged in connection with the services within the tax group.

15. Significant events after balance sheet date

By the relevant statutory provisions the financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) from 1 January 2019.

16. Other information

- From 1 Mai, 2018 the bookkeeping tasks of Takarék Mortgage Bank Plc. are performed by MTB, within the framework of the SLA service agreement in force between the Commercial Bank and the Mortgage Bank .
- The responsible person for the leadership and management of accounting of Takarék Mortgage Bank Plc.

  Györgyi Aho

  Public data on record:
  Györgyi Aho Registration number: 004696 Residence: 1155 Budapest, Naspolya u. 19.
- In the 2018 business year the Company employed Deloitte Auditing and Consulting Ltd. (seated: 1068 Budapest, Dózsa György út 84/C., corporate registration number: 01-09-071057; auditors' chamber id: 000083; Hungarian Financial Supervisory Authority id: T-000083/94; hereinafter referred to as: "Auditor") to act as its auditor. The personally appointed auditor of the auditing company was Mr. Tamás Horváth (mother's name: Veronika Grósz; address: 1028 Budapest, Bölény u. 16; auditors' chamber id: 003449; Hungarian Financial Supervisory Authority id: E003449; hereinafter referred to as: „personally assigned auditor").
- The audit fee of the Auditor for performing the annual audit of the financial reports of the Company on year 2018 was HUF 14.6 million. In addition to the annual audit, the Bank assigned the Deloitte Ltd to perform other non-audit services, and paid all together HUF 7.3 million for them.
- The following persons are authorised to represent Takarék Mortgage Bank Public Limited Company and sign the Company's annual report:

  Dr. László Gyula Nagy — Chief Executive Officer

  Attila Mészáros — Deputy Chief Business
- The Bank's Annual Report can be inspected at the Company's registered office and on its website www.takarek.hu.
- The Company's registered office: 1082 Budapest, Üllői út 48.

TAKARÉK MORTGAGE BANK

I /4. Changes in own equity
31 December 2018

Data in million HUF

	Subscribed capital	Capital reserve	General reserve	Accumulated profit reserve	Fixed reserve*	Balance Sheet profit	Total own equty
31 December 2017	**10 849**	**52 747**	**460**	**-10 687**	**207**	**4 141**	**57 717**
Capital increase	-	-	-	-	-	-	-
Capital reserve increase	-	-	-	-	-	-	-
Change of general reverse	-	-	252	-	-	-	252
Loss for 2017	-	-	-	4 141	-	-4 141	-
Profit for 2018	-	-	-	-	-	2 271	2 271
31 December 2018	**10 849**	**52 747**	**712**	**-6 546**	**207**	**2 271**	**60 240**

* Include the repurchased own shares.

TAKARÉK MORTGAGE BANK

II. SPECIFIC PART

II / 1. Changes in gross values of intangible and tangible assets

31 December 2018

Data in million HUF

Description	Balance sheet line	Changes in gross values				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		-	-	-	-	-
b/ Intellectual products		1 322	-	-	16	1 306
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**1 322**	**-**		**16**	**1 306**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	357	-	1	-	358
b/ Plant, machinery installations, vehicles	10. ab)	535	-	-	82	453
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**892**	**-**	**1**	**82**	**811**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**10**	**-**	**-**	**-**	**10**

TAKARÉK MORTGAGE BANK

II / 2. Changes in accumulated depreciation of intangible and tangible assets

31 December 2018

Data in million HUF

Description	Balance sheet line	Changes in accumulated depreciation				
		Opening balance	Transfer from opening balance	Increase in the year	Decrease in the year	Closing balance
I. Intangible assets :						
a/ Valuable rigths		-	-	-	-	-
b/ Intellectual products		893	-	42	12	923
c/ Goodwill		-	-	-	-	-
d/ Value of formation / reorganization		-	-	-	-	-
Total intangible assets :	**9.**	**893**	**-**	**42**	**12**	**923**
II. Tangible assets of financial services:						
a/ Land and buildings	10. aa)	252	-	43	-	295
b/ Plant, machinery installations, vehicles	10. ab)	323	-	32	35	320
c/ Construction in progress	10. ac)	-	-	-	-	-
d/ Advances on contstruction in progress	10. ad)	-	-	-	-	-
Total tangible assets of financial services:	**10. a)**	**575**	**-**	**75**	**35**	**615**
III. Tangible assets of non-direct financial services:						
a/ Land and buildings	10. ba)	-	-	-	-	-
b/ Plant, machinery installations, vehicles	10. bb)	10	-	-	-	10
c/ Construction in progress	10. bc)	-	-	-	-	-
d/ Advances on contstruction in progress	10. bd)	-	-	-	-	-
Total tangible assets of non-direct financial services:	**10. b)**	**10**	**-**	**-**	**-**	**10**

TAKARÉK MORTGAGE BANK

II / 3. Changes in net values of intangible and tangible assets

31 December 2018

Data in million HUF

Description	Balance sheet line	Changes in net values	
		Opening balance	Closing balance
I. Intangible assets :			
a/ Valuable rigths		-	-
b/ Intellectual products		429	383
c/ Goodwill		-	-
d/ Value of formation / reorganization		-	-
Total intangible assets :	**9.**	**429**	**383**
II. Tangible assets of financial services:			
a/ Land and buildings	10. aa)	105	63
b/ Plant, machinery installations, vehicles	10. ab)	212	133
c/ Construction in progress	10. ac)	-	-
d/ Advances on contstruction in progress	10. ad)	-	-
Total tangible assets of financial services:	**10. a)**	**317**	**196**
III. Tangible assets of non-direct financial services:			
a/ Land and buildings	10. ba)	-	-
b/ Plant, machinery installations, vehicles	10. bb)	-	-
c/ Construction in progress	10. bc)	-	-
d/ Advances on contstruction in progress	10. bd)	-	-
Total tangible assets of non-direct financial services:	**10. b)**	-	-

TAKARÉK MORTGAGE BANK

II / 4. Changes in depreciation of intangible and tangible assets in the subject year

31 December 2018

Data in million HUF

Description	Profit & Loss statement line	Planned depreciations	Over-plan depreciations, shrinkage
I. Intangible assets			
1/ Valuable rights		-	-
2/ Intellectual products		42	-
3/ Goodwill		-	-
4/ Value of formation / reorganization		-	-
Total intangible assets		**42**	**-**
II.1. Tangible assets of financial services:			
1/ Land and buildings		43	-
2/ Plant, machinery, installations, vehicles		32	-
3/ Investments		-	-
Total tangible assets of financial services:		**75**	**-**
II.2. Tangible assets of non-direct financial services			
1/ Land and buildings		-	-
2/ Plant, machinery, installations, vehicles		-	-
Total tangible assets of non-direct financial services:		**-**	-
III. Depreciation of tangible and intangible assets of			-
a value below HUF 100,000 each accounted in a sum		**-**	
T o t a l :	**9.**	**117**	-

II / 5. Portfolio of accounts receivable from credit institutions and customers broken down by residual time to maturity (without sight ones)
31 December 2018

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2018	Portfolio of 31 December 2017 without value loss broken down by residual times to maturity					
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years
		1 = 2+..+7	2	3	4	5	6	7
Accounts receivable from credit institutions :								
- Other short term	3. ba)	26 548	16 119	10 429	-	-	-	-
- Long term	3.bb)	155 238	-	-	56 176	48 387	28 682	21 993
Accounts receivable from customers :								
- Short term	4. aa)	9 829	4 599	5 230	-	-	-	-
- Long term	4. ab)	59 964	-	-	25 437	18 060	8 672	7 795
- Accounted value loss	from 4. ab)	-2 196	-	-	-	-	-	-
Total:		**249 383**	**20 718**	**15 659**	**81 613**	**66 447**	**37 354**	**29 788**

TAKARÉK MORTGAGE BANK

II / 6 . Portfolio of accounts payable to credit institutions / customers and issued securities broken down by residual times to maturity (without sight ones)
31 December 2018

Data in million HUF

Description	Balance sheet line	Portfolio as of 31 December 2018	Portfolio of 31 December 2017 without value loss broken down by residual times to maturity						
			Within three months	Between 3 months and one year	Between 1 year and 5 years	Between 5 years and 10 years	Between 10 years and 15 years	More then 15 years	No maturity
		1 = 2+...+8	2	3	4	5	6	7	8
Accounts payable to credit institutions :									
- Short term	1. ba)	12 545	12 545	-	-	-	-	-	-
- Long term	1. bb)	-	-	-	-	-	-	-	-
Accounts payable to customers :									
- Short term	2. ab)+ 2. bb)	26	26	-	-	-	-	-	-
- Long term	2. ac)+ 2. bc)	-	-	-	-	-	-	-	-
Accounts payable due to issued securities :									
- Short term	3.aa)	20 968	-	20 968	-	-	-	-	-
- Long term	3.ab)	228 218	-	-	159 418	39 650	29 150	-	-
Subordinated accounts payable	7.	-	-	-	-	-	-	-	-
Total:		**261 757**	**12 571**	**20 968**	**159 418**	**39 650**	**29 150**	**-**	**-**

TAKARÉK MORTGAGE BANK

II / 7 . Items to modify corporate tax base

31 December 2018

Data in million HUF

Items to decrease pre-tax profit	Amount	Items to increase pre-tax profit	Amount
1. Planned and over-plan depreciation applicable according to the provisions of Corporate Tax Act.	117	1. Planned depreciation accounted as cost according to Accounting Act.	117
2. Expenditure from sale of tangible assets according to the Corporate Tax Act.	44	2. Expenditure from sale of tangible assets according to the Accouting /	44
3. Reversal of provision for expected liabilities and future costs	631	3. Provision for future liabilities and expected costs	0
4. Release of provision for legal cases	12	4. Provision for legal cases	2
4. Income from dividend received	234	5. Tax penalties / Penalties to the Taxation Authority	3
5. Items to increase pre-tax profit of the previous years (revenues, expenses)	111	6. Expenses that are not ordinary business expenses	20
		7. Impairment loss to Accounting Act.	3
6. Others decrease items	0		
7. Support to organisations	0		
9. Transfer price correction	0		
10. Banking tax	154		
Total:	**1 303**	**Total:**	**189**

II / 8. Classification of receivables

31 December 2018

in million HUF

Classification	31 December 2017				31 December 2018			
	Gross amount	Rate	Impairment	Net carrying amount	Gross amount	Rate	Impairment	Net carrying amount
Receivables from customers:								
Performing	66 698	82.88%	-	66 698	61 113	87.56%	-	61 113
Non performing	13 781	17.12%	4 975	8 806	8 680	12.44%	2 196	6 484
Total:	**80 479**	**100.00%**	**4 975**	**75 504**	**69 793**	**100.00%**	**2 196**	**67 597**
Receivables from credit institutes:								
Performing	147 255	100.00%	-	147 255	182 765	100.00%	-	182 765
Non performing	-	0.00%	-	-	-	0.00%	-	-
Total:	**147 255**	**100.00%**	**-**	**147 255**	**182 765**	**100.00%**	**-**	**182 765**

TAKARÉK MORTGAGE BANK

II / 9. Contingent liabilities

31 December 2018

in million HUF

Classification	31 December 2017			31 December 2018		
	Gross off-balance sheet liabilties	Rate	Provision in balance sheet	Gross off-balance sheet liabilties	Rate	Provision
Liabilities to customers:						
Performing	3 031	98.38%	-	1 542	98.07%	-
Non performing	50	1.62%	14	30	1.93%	1
Total:	**3 081**	**100.00%**	**14**	**1 572**	**100.00%**	**1**

Contingent liabilities related to litigation cases:						
Performing	17	100.00%	12	7	100.00%	2
Non performing	-	0.00%	-	-	0.00%	-
Total:	**17**	**100.00%**	**12**	**7**	**100.00%**	**2**

Only portfolios from credit insitute activity are imcluded in off-balance sheet liabilities, items according to Accounting Act are excluded.

TAKARÉK MORTGAGE BANK

II / 10 Changes in provisions

31 December 2018

Data in million HUF

Description	Opening balance	Of credit losses	Creation of provision	Use of provision *	Release of provision	FX differences	Closing balance
1. Provision for securities	-	-	-	-	-	-	-
2. Provision for accounts receivables	-	-	-	-	-	-	-
3. Provision for inventories	-	-	-	-	-	-	-
4. Provision for financial investments	-	-	-	-	-	-	-
5. Provision for off-balance-sheet items	26	-	5	28	-	-	3
6. Provision for possible future obligation	-	-	-	-	-	-	-
7. Margin of provision for possible futute obligation	-	-	-	-	-	-	-
8. Provision for possible future costs	1 125	-	478	582	478	-	543
9. Provision for general risks	-	-	-	-	-	-	-
10. Other provisions	60	-	-	49	-	-	11
Total provisions : (1. - 10.)	**1 211**	-	**483**	**659**	**478**	**-**	**557**

* Provisions are related to the contingent liabilities (for example unused credit lines) or future payment obligations. The reduction of the provision should be accounted as a "use" from the books due to the derecogniton of contingent liabilities related to a special event (sale, write-off, remission), max. in the same amount as the contingent liability.

**If the amount of the provision is higher than the derecognised contingent liability, the provision should be reduced as "reversal". A reversal is also recognized if the qualifying of the contingent liability is positive in the quarterly rating and the amount of the provision can be reduced. According to the Government Decree No. 250/2000 (X.12) the reversal of provisions should be classified if the reversal of the current year provision or the reducing of the previous year provision.

II / 11 Changes in impairment losses

31 December 2018

Data in million HUF

	Description	Opening balance	Provision for impairment in the period	Reversal of impairement for the period **	Reversal of impairment of previous period **	Impairment used *	FX differences	Closing balance
1.	Impairment loss of accounts receivable from banks	-	-	-	-	-	-	-
2.	Impairment loss of accounts receivable from customers	4 975	884	469	2 031	1 197	34	2 196
3.	Exchange diferencee of impairment loss of customers	-	-	-	-	-	-	-
4.	Impairment loss of investment shares	3 304	-	-	-	-	-	3 304
5.	Inventories	2	-	-	-	-	-	2
6.	Impairment loss of repossessed property collaterals	9	-	-	8	-	-	1
7.	Impairment loss of properties held for sale	23	3	-	-	26	-	-
	Total value losses: (1. - 7.)	**8 313**	**887**	**469**	**2 039**	**1 223**	**34**	**5 503**

*The reduction of the impairment should be accounted as a "use" from the books due to the derecogniton of receivables related to a special event (sale, write-off, remission), max. in the same amount as the receivabl

**If the amount of the impairment is higher than the derecognised receivable, the impairment should be reduced as "reversal".

A reversal is also recognized if the qualifying of the receivable is positive in the quarterly rating and the amount of the impairment can be reduced.

According to the Government Decree No. 250/2000 (X.12) the reversal of impairment should be classified if the reversal of the current year impairment or the reducing of the previous year provision.

TAKARÉK MORTGAGE BANK

II / 12 CASH-FLOW

Data in million HUF

No.	Description	31 December 2017	31 December 2018
01.	Interest received	12 585	10 548
02.	+ Incomes from other financial services	7 642	3 234
03.	+ Other incomes (without use of provision and reversal of surplus provision, impairment loss of inventories and over-plan depreciation	986	1 966
04.	+ Incomes from investment services (except for reversal of impairment loss of securities)	-	-
05.	+ Incomes from services other than financial or investment	1 322	989
06.	+ Dividend received	393	234
07.	+ Extraordinary income	-	-
08.	- Interest paid	-9 495	-8 142
09.	- Expenses on other financial services (without impairment loss of securities)	-2 362	-2 420
10.	- Other expenses (except for creation of provision and impairment loss, over-plan depreciation)	-911	-1 898
11.	- Expenses on investment services (without impairment loss of securities)	-68	-57
12.	- Expenses on services other than financial and investment ones	-30	-57
13.	- General administration costs	-4 677	-3 348
14.	- Extraordinary expenses (without taxation in subject year)	-	-
15.	- Corporate tax payable in the period	-362	-154
16.	- Dividend paid (payable)	-	-
17.	**Operating cash flow (lines 01.-16.)**	**5 023**	**895**
18.	± Changes in accounts payables	-29 757	27 383
19.	± Changes in accounts receivables	23 130	-25 016
20.	± Changes in inventories	2	138
21.	± Changes in portfolio of securities in current assets	-2 300	1 463
22.	± Changes in financial investments	6 514	-
23.	± Changes in portfolio of investments (including advances)	-	-
24.	± Changes in portfolio of intangible assets	-18	4
25.	± Changes in portfolio of tangible assets (without investments)	-11	46
26.	± Changes in accruals	1 887	-5 156
27.	± Changes in deferrals	-5 253	209
28.	+ Issue of shares at selling price	-	-
29.	+ Funds received without compensation according to relevant rules of law	-	-
30.	+ Funds handed over without compensation according to relevant rules of law	-	-
31.	- Nominal value of withdrawn own shares, property bonds	-	-
32.	**NET CASH FLOW (lines 17.-29.)**	**-783**	**-34**
	Out of which: - changes in cash	-2	-
	- changes in bank money (accounting and other sight deposit with NBH)	-781	-34

II / 13 Maturities of major items of accrued interests and deferred costs and expenses

31 December 2018

Data in million HUF

Description	Balance sheet line	Items of 31 December 2018 broken down by maturities				31 December 2018
		Within 3 months	Between 3 months and one year	More then 1 year but, less then 2	More then 2 years	
		1	2	3	4	= 1+2+3+4
Accrued interest	From 13. a)					
- Accrued interests on redeemed own securities		-	241	-	-	**241**
- Accrued interests from accounts receivable from customers		3 392	-	-	-	**3 392**
- Accrued interests from credit institutions from refinancing loans		129	-	-	-	**129**
- Accrued interests of interbank deposits		-	-	-	-	**-**
- Accrued interest of hedge transactions		98	386	-	-	**484**
- Commission for arrangement of state subsidies		7	-	-	-	**7**
Deferred costs and expenses	From 5. b)					
- Deferred interest on issued mortgage bonds		845	4 114	-	-	**4 959**
- Deferred interest on hedge transactions		74	173	-	-	**247**
-Deferred interest on subordinated loan		-	-	-	-	-
- Deferred interest on interbank loans		2	-	-	-	**2**

TAKARÉK MORTGAGE BANK

II / 14 Assets and liabilities in foreign currencies
31 December 2018

Data in million HUF

	ASSETS	Amount in balance sheet	Of which in foreign currency, value in HUF		LIABILITIES	Amount in balance sheet	Of which in foreign currency, value in HUF
1.	Cash	335	0	1.b.	Liabilities towards credit institutions from financial services	12 545	1 100
2.a.	Government securities	31 515	0	2.b.	Other liabilities to customers from financial services	652	7
3.a.	Receivables from credit institutions - in sight	979	979	3.	Liabilities from securities issued	249 186	9 645
3.b.	Receivables from credit institutions - other financial services	181 786	5 160	4.a.	Other liabilities	688	287
4.a.	Loans and advances to customers	67 597	5 016	5.a.	Deferred income	3 972	0
5.ba.	Debt securities, including fixed interest securities issued by other issuer	7 592	0	5.b.	Accrued costs and expenditures	5 452	231
12.b.	Other receivables	1 493	0				
13.a.	Accrued income	5 217	10				
13.b.	Deferred costs and expenditures	3 982	11				

II / 15 Services consumed and accounted costs by types

2018

Data in million HUF

Description		2017	2018
Material costs		113	92
Value of services consumed		2 763	2 768
from this	IT costs	1 165	1 405
	Consultancy, audit fees	232	174
	Marketing costs	35	2
	Rental fees	558	533
	Recruitment, hiring costs	37	1
	Postal, courier, telecommunication costs	267	291
	Costs of administration services	45	28
	Real estate and asset maintenance costs	171	82
	Agent service fees	126	58
	Bank security fees	35	49
	Travelling, accomodation, transportation costs	4	1
	Database usage, professional books	50	31
	Fees related to issued mortgage bonds	38	113
Other services		350	75
Wages and salaries		1 032	311
Other personnel expenses		160	27
Social security contributions		259	75
Depreciation		143	117
Total		**4 820**	**3 465**

III. INFORMATIVE PART

III / 1/a Informative data on direct investments of the Bank

31 December 2018

Data in million HUF

Name of the enterprise\ Registered office	Share in investment	Registered value of the investment	Enterprise's Total equity	Registred capital	Unpaid capital	Retained Earnings	Tied up reserve	Capital reserve	Revaluation reserve	2018 profit / loss
Takarék Commercial Bank Ltd.	51.0%	31 978	22 446	8 681	-	-9 712	-	21 647	-	1 647
1082 Budapest Üllői út 48.										
Total		**31 978**	**22 446**	**8 681**	**-**	**-9 712**		**21 647**	**-**	**1 647**

III / 1/b Informative data on indirect investments of the Bank

31 December 2018

Data in million HUF

Name of enterprise	Headquaters	Share in investment	Subscribed capital
Magyar Takarékszövetkezeti Bank Ltd.	1122 Budapest, Pethényi köz 10.	0.00006%	3 390
Integration Organization of Cooperative	1051 Budapest, Nádor utca 31.	0.00714%	-

III /2 Investments
31 December 2018

Data in million HUF

	Takarék Commercial Bank Ltd. *	Magyar Takarékszövetekezeti Bank Ltd.	Integration Organization of Cooperative	Total
Gross value 31 December 2017	**35 282**	**0.002**	**10**	**35 292**
Purchase of shares	-	-	-	**0**
Sale of shares	-	-	-	**0**
Capital increase	-	-	-	**0**
Gross value 31 December 2018	**35 282**	**0.002**	**10**	**35 292**
Impairment losses 31 December 2017	**3 304**	**0**	**0**	**3 304**
Investment impairment	-	-	-	**0**
Investment impairment reversal	-	-	-	**0**
Impairment losses 31 December 2018	**3 304**	**0**	**0**	**3 304**
Goodwill	-	-	-	**0**
Net value 31 December 2018	**31 978**	**0.002**	**10**	**31 988**

* Company name is changed: FHB Bank Ltd.

III / 3 Total emoluments payable to members of Board of Directors and Supervisory Board on business year

31 December 2018

Data in million HUF

Description	Number of persons 31.12.2017	Number of receipients of remunerations 2017	Amount of remunerations payable (million HUF) 2017	Number of persons 31.12.2018	Number of receipients of remunerations 2018	Amount of remunerations payable (million HUF) 2018
Board of Directors	5	8	17	4	6	9
Supervisory Board	5	5	12	6	8	15
Total :	**10**	**13**	**29**	**10**	**14**	**24**

Total emoluments payable to Management

Data in million HUF

Description	Number of persons 31.12.2017	Number of receipients of remunerations 2017	Amount of remunerations payable (million HUF) 2017	Number of persons 31.12.2018	Number of receipients of remunerations 2018	Amount of emoluments payable (million HUF) 2018
Management	2	3	19	2	2	37
Total :	**2**	**3**	**19**	**2**	**2**	**37**

TAKARÉK MORTGAGE BANK

III / 4. Loans granted to members of Board of Directors, Management and Supervisory Board

31 December 2018

Data in million HUF

Description	31.12.2017.	31.12.2018.
Amount of loan at disbursment date	1	0
Outstanding debt	1	0

The conditions of the loans are under the terms of general announcement.

III / 5 Average statistical personnel staff broken down by staff groups

31 December 2018

Data in million HUF

Employees by staff groups	Average statistical personnel staff		Wage costs (mHUF)	
	2017	2018	2017	2018
Full time				
- white-collar worker	66	8	549	72
- blue collar worker	2	1	7	2
Total	*68*	*9*	*556*	*74*
Part-time				
- white-collar worker	80	26	373	140
- blue collar worker	-	-	-	-
Total	*80*	*26*	*373*	*140*
Pensioners				
- white-collar worker	4	1	24	32
- blue collar worker	-	-	-	-
Total	*4*	*1*	*24*	*32*
Off the payroll	0	0	79	65
Total	**152**	**36**	**1032**	**311**

TAKARÉK MORTGAGE BANK

III / 6 Book value and nominal value of securities
31 December 2018

Data in million HUF

Type of securities	Book value	Nominal value
I. Current assets		
a) Government bonds	19 133	18 904
b) Treasury Bills	12 382	12 410
c) MNB bonds	0	0
d) Unsecured bonds issued by credit institutions	2 788	2 817
e) Secured mortgage bonds	4 804	4 227
f) Redeemed own bonds (repurchased by the bank)	0	0
g) Redeemed own shares (repurchased by the bank)	207	25
Total current assets	**39 314**	**38 383**
II. Long term financial assets		
a) investment in credit institutions	31 978	3 960
b) investment in other enterprises	10	10
Total long term financial assets:	**31 988**	**3 970**
TOTAL (I. + II.)	**71 302**	**42 353**

TAKARÉK MORTGAGE BANK

III / 7 Off-balance sheet items

31 December 2018

Data in million HUF

Descriptions	31 December 2017.	31 December 2018.
Contingent liabilities		
- Available credit ines of disbursed loans	8 846	15 442
- Loans contracted but not disbursed	966	258
Total contingent liabilities	**9 812**	**15 700**
Future obligations	953	3 854
Total off-balance sheet liabilities	**10 765**	**19 554**
Future receivables	1 121	9 244
Principal receivable value of collateral	214 848	239 933
Total off-balance sheet receivables	**215 969**	**249 177**
Collateral value of related property offered	681 866	801 719

Budapest, 2 April 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy Chief Executive Officer

TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2018
ACCORDING TO HAS

Budapest, April 2, 2019

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK

1.1 TAKARÉK MORTGAGE BANK PLC.

Takarék Mortgage Bank Public Limited Company (hereafter referred to as “the Bank” or “the Company”) was established by the Hungarian State on October 21, 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank provided mortgage banking services through its Head Office and regional representative offices located within the Republic of Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

The Bank received its license to operate as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds (Jht.) on March 6, 1998. The Bank started operation as of March 16, 1998.

On October 31, 2003 the Hungarian Financial Supervisory Authority (HFSA) granted permission for the Bank to issue a prospectus and introduce its shares to the Budapest Stock Exchange (BSE). The ordinary shares were listed on November 24, 2003.

Ownership structure of Takarék Mortgage Bank Plc. as of December 31, 2018:

	December 31, 2018		December 31, 2017	
Shareholder	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
Ordinary „A” shares listed on BSE				
Domestic institutional investors	52.6	57 069 304	50.5	54 735 748
Foreign institutional investors	0	20 576	0.1	126 899
Domestic prviate investors	3.5	3 759 643	5.3	5 750 222
Foreign private investors	0	60 400	0	39 388
Employees, management	0	0	0	11 517
State ownership	4.5	4 832 225	4.5	4 832 225
Repurchased shares	0.2	253 601	0.2	253 601
Other investors	0	4 261	0.2	250 410
Series „A” total	60.8	66 000 010	60.8	66 000 010
Dividend preference „B” shares not listed on BSE				
Domestic institutional investors	13.1	14 163 430	13.1	14 163 430
Series „B” total	13.1	14 163 430	13.1	14 163 430
Ordinary „C” shares not listed on BSE				
Domestic institutional investors	26.1	2 832 686	26.1	2 832 686
Series „C” total	26.1	2 832 686	26.1	2 832 686
Total	**100**	**82 996 126**	**100**	**82 996 126**

The Bank introduced its New Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries, among them the Takarék Commercial Bank Ltd. (formerly known as Commercial Bank Ltd., henceforth “the Commercial Bank”), thereby significantly expanding the range of services provided as a group.

In 2013, the Bank managed several acquisitions, thereby broadening the range of activities provided by the group as well as expanding the number of affiliates. It included the acquisition of Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), the purchase of the Díjbeszedő Operational and Service Limited Liability Company (hereafter the “DÜSZ”), that came into being after a secession from Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Co. Plc. (“DBF”), DíjNET Ltd., Díjbeszedő Informatikai Ltd. (“DBIT”), and certin share of the ownership in the Magyar Posta Befektetési Zrt. (Hungarian Post). The Bank sold these ownership shares to the Bank of Hungarian Savings Cooperatives Ltd. (hereafter “MTB”) in December 2017.

Based on the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv), the Bank and the Commercial Bank (under the Bank’s qualifying holding and prudential supervisory) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ) in September 2015, and also the member of the Guarantee Group of Cooperative Credit Institutions, and thus a member of Hungary’s fourth largest banking group (the Takarék Group).

At the end of December 2015 the Bank increased its share capital by HUF 4,249 billion face value, which equaled HUF 30.5 billion issue value. The capital increase was made by issuing dematerialized dividend preference shares (Series “B”) and registered, dematerialized ordinary shares (Series “C”). The new shares (Series “B” and Series “C”) were not listed on the Budapest Stock Exchange, they were purchased by the members of Takarék Group.

The shareholder structure of the Company changed significantly in the last quarter of 2016. On October 14, 2016 A64 Vagyonkezelő Ltd. sold its shares in the Company over the counter to B3 Takarék and Fókusz Takarék, on December 9, 2016 MTB bought the shares of VCP Finanz Holding Ltd. As a result, MTB and the cooperative credit institutions obtained more than 68% of the shares of the Company by the end of the year.

The integration process of the Bank and the Commercial Bank within the Integration of Cooperative Credit Institutions that started in the autumn of 2015 finished in 2017. The organizational restructuring of the Bank, in line with the strategy of the Integration, started immediately after this. As a first step, the Bank was reclassified as a simple profile mortgage bank, with remaining issuance and refinancing functions, and all other human resources and capacities were transferred to MTB and the Commercial Bank.

On June 27, 2017 the General Assembly of MTB accepted the 5-year strategy of the Integration. According to that, the function of the central financial body of Takarék Group will be solely performed by MTB; hence the Bank’s group management functions were passed over to MTB. According to the plans, the satellite institutions of the Integration, including mutual fund management, factoring and leasing service suppliers became directly subordinated to the MTB.

As a consequence of the transactions listed above, investments of the Takarék Mortgage Bank as of December 31, 2018:

Companies	Takarék Mortgage Bank Plc.	Takarék Commercial Bank Ltd.	Total
Takarék Commercial Bank Ltd.	51.00%	-	51.00%
Bank of Hungarian Savings Cooperatives Ltd.	1 „C” share	1 „C” share	0.00%

From April 2018 the Bank made no more new loan disbursements, it disbursed allotments and non-refundable state subsidies only on previously agreed credit contracts. New credit contracts for households from this time were made available in the Commercial Bank. Previously made credit contracts were kept in the Bank’s portfolio until their expiry, but the active functions of the Bank remained solely those that relate to classic mortgage bank functions (issuance of mortgage bonds and refinancing).

The general assembly of the Company on April 27, 2018 made a decision over the changing of the name of the Bank. It is from June 25, 2018 that Takarék Mortgage Bank Plc. as the Company’s name. In the revised 5-year strategy of the Takarék Group (accepted on November 30, 2018 by MTB’s general meeting) the Bank’s principal role remained unchanged: it solely performs classic mortgage bank activities.

1.2 TAKARÉK COMMERCIAL BANK LTD.

In line with the midterm strategic plan for the years 2006-2010, the Board of Directors of the Bank decided to establish the Commercial Bank in February 2006. After receiving licence, banking operation started on December 5, 2006. In 2007, the Commercial Bank broadened its branch network and gradually took over the distribution of retail and corporate loans from the Bank and started funding activity due to continuously developing account and bank card services. In 2008 the Commercial Bank launched its SME business line, later in 2010 it started its investment services business line.

As a result of the merger with Allianz Bank Ltd. on April 1, 2011, the number of employees, number of branches and the size of financial assets of the Commercial Bank increased significantly, the product portfolio considerably widened.

In September 2014, the Bank and Magyar Posta Zrt. contracted on the purchase (by the latter) of ordinary shares representing 49% of the share capital of the Commercial Bank. The closing of the transaction – after the central bank of Hungary gave the necessary permission to the Hungarian Post to acquire the shares – took place on September 30, 2014. Before the transaction, the general meeting of the Commercial Bank Ltd. decided on approximately HUF 20 billion capital increase. This was registered on October 1, 2014.

In November 2013 the Commercial Bank established the Hungarian Card Service Ltd. (renamed from the previous FHB Card Service Ltd. in March 2014), the activity of which is linked to card related electronic payment platform services. On September 28, 2018 the Commercial Bank sold its 99.39% share in the company.

As the large commercial bank of the Integration, the Commercial Bank represents the Takarék Group as a prestigious financial institution, competing with large banks in Budapest and cities with higher population; it closed its operations in smaller settlements in 2017.

The Commercial Bank ceased to provide investment services on its own account from December 18, 2017. It continues to serve its previous clients through its network as an agent of MTB. The management of client accounts and portfolios were taken over by MTB.

The Commercial Bank changed its name on April 16, 2018. According to the Takarék Group's strategy for the 2019-2023 period (which was approved by the general meeting of MTB on November 30, 2018), at the end of 2019 the Commercial Bank will merge into the new large commercial bank, which unifies Takarék Group's all banking related activities, except that of mortgage banking.

2 THE MACROECONOMIC ENVIRONMENT IN 2018

2.1 THE HUNGARIAN ECONOMY IN 2018[1]

Indicator	2016	2017	2018
Real GDP growth	2.2%	4.0%	4.9%
Industrial output growth	0,9%	4.9%	3.6%
Average annual rate of inflation	0.4%	2.3%	2.8%
Average annual rate of unemployment	5.1%	4.2%	3.7%
ESA-based budget balance (relative to GDP)*	-1.9%	-2.3%	-2.0%
Net external financing capacity (relative to GDP)*	6.2%	5,8%	4.1%
Base rate (end-of-year)	0.90%	0.90%	0.90%
EUR-HUF exchange rate (end-of-year)	311.02	310.14	321.51

**Estimate for 2018*
Sources: KSH, MNB, NGM

[1] Data used in this chapter are based on the relevant reports and data releases of KSH (Central Statistical Office), MNB (National Bank of Hungary) and analyses prepared by MTB.

External demand was markedly less supportive for Hungary's economy in 2018 than a year before. GDP growth in the European Union substantially slowed: following 2017's 2.4%, the EU's economy expanded by only 1.9% last year, and the year-on-year growth rate was no more than 1.4% in the fourth quarter. Whereas in the US GDP growth accelerated from 2.5% in 2017 to 3% last year, the fourth quarter also brought slowdown in the other side of the Atlantic, which may set a new trend in the light of recent protectionist measures in foreign trade. Yet, overall the external financing environment remained friendly: although the FED raised its policy rate four times by 100bps combined, this was already priced in by markets, and towards the end of the year the FED's communication has lost its bias for tightening. The ECB, on the other hand, could not even start taking meaningful steps toward stricter conditions. It only called its quantitavie easing program an end, but will renew expiring papers in its portfolio, and the hiking of policy rates is not on the horizon.

With this background Hungary's economic growth could even accelerate from an already strong 4.1% back in 2017 to 4.9% last year. The 15-year high growth rate was driven mostly by gross fixed capital formation expanding at double-digit rates, and also private consumption that was supported by 8% growth in real wages and continued improvements in the labour market (employment increased by 1% and surpassed 4.5 million by the end of 2018). From the production side market service sector - reflecting to the upturn in domestic demand - contributed markedly to growth, and the construction sector had an exceptionally strong year again, counterbalancing the minor slowdown in industrial production growth. The strong increase in domestic demand, of course, led to faster import than export growth, nevertheless the trade surplus in 2018 was still healthy enough, although somewhat narrower than a year before.

The good growth performance was still accompanied by encouraging developments in both internal and external balances. Due to the relaxed financing environment and the uptick in fiscal revenues in the wake of increasing economic activity the budget deficit has barely reached 2% of GDP. Helped by strong nominal GDP growth public debt relative to GDP decreased by 2 percentage points compared to end-2017, thus it remained on a downward path for the seventh successive year. Developments also remained encouraging with respect to the evolution of external balances: similarly to 2017 the net external financing capacity of the Hungarian economy remained slightly above 4% of GDP. Although the surplus of the current account was somewhat smaller than in 2017, that of the capital account (reflecting mainly the net inflow of EU related transactions) was higher than in a year before. This improvement is also reflected in foreign debt figures: gross foreign debt (also including intercompany loans between foreign companies and their Hungarian subsidiaries) accounted for only 75% of GDP at the end of 2018 (10 percentage points down from the previous year), whereas net foreign debt contracted to well below 10% of GDP.

The 12-month rate of headline CPI inflation fluctuated in a wider than usual range in 2018 (between 1.9% and 3.8%), with average annual inflation reaching 2.8%. The acceleration of inflation towards the end of 2018 was mostly driven by products (for example fuel), which are outside the reach of monetary policy. Core inflation, which is intact from such impacts, was less volatile and remained below 3% throughout 2018. Yet, as in 2019 the meeting of the MNB's mid-term inflation target is fairly likely, it points to the direction of monetary policy normalization in the near future. As a precursor to this, the MNB gave up on fairly-priced monetary interest rate swap deals with commercial banks and the purchase of mortgage bonds, hence these programs lasted for hardly a year among the central bank's policy tools. On the other hand, the central bank totally discontinued accepting funds to be placed in its three-month deposit facility, and announced the resumption of its Credit for Growth program from 2019 with HUF 1,000bn maximum allotment. Altogether, the domestic short-term rate and yield environment remained fairly low, but longer term rates raised markedly: the 10-year reference rate at slightly above 3% was 100bps higher than its previous year's level (although it was as high as 3.6% intra-year).

In 2018 the Forint left the narrow range (305 to 315) it used to fluctuate within during the previous years vis-à-vis the Euro. On average it depreciated by close to 3.5% against the common European currency compared to 2017. This is partly explained by the MNB remaining asynchronous with major central banks, which stepped on a tightening path (at least verbally), but externl balance indicators that stopped improving further may have been another reason for the Forint to depreciate. Furthermore, back in 2018 major rating agencies failed to upgrade Hungary's credit rating, although this was expected by most market players.

The number of newly built dwellings in 2018 increased by 23% compared to 2017, but new building permits fell 3% short that of 2017, as momentum looks to evaporate in the case of residential real estate projects in Budapest due to the expected tightening in regulation beyond 2019. The 23% growth in the number of newly built dwellings means that 17,681 flats were reported as new last year compared to 14,389 flats in 2017. This driving force was developments in Budapest, where the annual growth rate exceeded 40%, but cities in the countryside that were the leading force of residential real estate markets in the previous years, saw the growth rate to slow down considerably. Of the newly built 17,681 flats 53% was constructed by entrepreneurs whereas 46% by private persons, which is an increase in the case of the former. The banking sector in 2018[2]

The total assets of the banking sector amounted to HUF 39,380 billion at the end of 2018, up 8.3% from HUF 36,354 billion a year before. According to not-audited preliminary figures the combined pre-tax profit of the banking sector reached HUF 584 billion last year, more than HUF 100bn below last year's HUF 689 billion, but it was expected in the wake of much smaller net income from de-provisioning, as well as markedly growing operational costs. The stock of gross credit of banking sector increased by 10% in 2018 and reached HUF 20,770 billion at the end of the year. Within this household credit increased by only 6.4%, but pastdue the non-financial corporate sector was up by close to 15%.

4.5% of the stock of household credits were in a 90+ day arrear at the end of last year, while the weight of non-performing loans was 7%. Both figures show significant decrease compared to end-2017 figures, which were 7.6% and 10.9% respectively. In the case of the non-financial corporate sector only 2.3% of their credit was in a 90+ day arrear, which is a marked decrease compared to 3.5% prevailing at the end of 2017.

The share of client deposits within total liabilities rose to 57% in 2018, its volume reached HUF 22,416 billion. 38% of this stock was owned by households, whereas 38.6% by the non-financial corporate sector.

2.1.1 Households' mortgage loans

The disbursement of new mortgage loans stabilized in the HUF 80-90 billion range on a monthly basis from May 2018, rising from HUF 60-70 billion, which characterized the first four months of the year and most of 2017. This resulted in a full-year HUF 916 billion new disbursement in 2018, up 29.4% from 2017's HUF 708 billion. In fact, a meaningful growth rate characterized only the houseing segment, where new disbursements were 31% higher in 2018 than a year before. Growth in the new disbursement of mortgage-backed general purpose loans amounted to only 13%.

The stock of households' mortgage debt was HUF 4,363 billion at the end of 2018, which implies HUF 150 billion increase (+3.6%) from HUF 4,213 billion in December 2017. Within this, however, there was growth in only home equity loans: compared to end-2017's HUF 3,037 billion the stock increased to HUF 3,334 billion (+10%) by the end of 2018. Meanwhile, the stock of mortgage-backed general purpose loans contracted by HUF 153 billion (-12.9%), and its volume was HUF 1,029 billion at the end of last year. The share of foreign currency denominated loans was under 0.5% of the total stock and continues shrinking further.

2.1.2 The market of mortgage bonds

In the course of 2018 the face value of the stock mortgage bonds issued by the five mortgage banks residing in Hungary increased by almost HUF 400 billion, which implies approximately 50% growth, and consequently, the end-year stock was close to HUF 1,220 billion at face value. Contributed to this growth was the MNB's intensive mortgage bond purchase program: on net terms the central bank purchased HUF 300bn mortgage bonds throughout 2018. But the fact that the Mortgage Financing Adequacy Ratio (MFAR: the minimum statutory rate of household mortgage debt to be covered by funds arising from the issuance of mortgage bonds) was raised to 20% from the previous 15% on October 1, 2018, also contributed to higher mortgage bond issuance than in previous years.

[2] This section relies on data provided by the MNB. We use data relating to the Hungarian operation of banks (branches) only, hence excluding the affiliates of Hungarian banks operating abroad.

3 REPORT ON BUSINESS ACTIVITIES AND FINANCIAL ANALYSIS

3.1 MAJOR FINANCIAL INDICATORS

HUF million*	31/12/2017	31/12/2018	Change
Balance sheet total	303.8	333.3	9.7%
Gross loans	81.6	70.7	-13.4%
Securities issued	187.2	249.2	33.1%
Equity	57.7	60.2	4.4%
Solvency capital (preliminary, consolidated)	230.8	233.5	1.2%
Pre-tax profit for the year	4.6	2.5	-45.2%
Profit for the year	4.1	2.3	-45.2%
Cost/income ratio w/o other results (CIR, %)	108.2%	54.7%	-49.5%-pt
ROAA (return on average assets, %)	1.3%	0.7%	-0.6%-pt
ROAE (return on average equity, %)	7.5%	3.9%	-3.6%-pt

* according to controlling methodology that differs from stabndard accounting classification in many respects

The Bank's balance sheet total calculated according to the Hungarian Accounting Standards (HAS) was HUF 333.3 billion as of December 31, 2018, up 9.7% (HUF 29.5 billion) from a year before. Pre-tax profit according to controlling methodology amounted to HUF 2.523 billion. The special bankingtax was a HUF 153.8 million burden on the bank's financial result.

3.2 LENDING

The volume of gross loans amounted to HUF 70.7 billion as of December 31, 2018, down by HUF 10.9 billion (-13.4%) from the end of the previous year. 91.6% of this stock, i.e. HUF 64.7 billion is classified as household loan, which is HUF 10.7 billion lower than at the end of 2017. The stock of corporate loans amounted to HUF 5.9 billion at the end of 2018, HUF 0.2 billion below that of the previous year. 91.4% of the total amount of gross loans is denominated in HUF, leaving the stock foreign currency denominated loans at HUF 6.1 billion. New loan disbursements reached HUF 5.6 billion in 2018, HUF 2.1 billion below that of last year's. These were entirely household loans in 2018.

Lending activity concentrated primarily in home equity loans. The stock of these was HUF 54.3 billion at the end of 2018, down by 11.5% (HUF 7 billion) from end-2017. The volume of mortgage backed general purpose loans decreased to HUF 7 billion (down by 30.3%) compared to the end of 2017.

The stock of land development loans amounted to HUF 746 million at the end of 2018, 27% below that of last year's. The stock of mortgage loans for elderly was HUF 2.3 billion in December 2018, falling 7.5% from the preceding year.

The stock of corporate loans decreased by 2.9% in the course of 2018, mainly explained by a reduction in loans related to commercial real estate financing.

3.3 REFINANCING

By December 31, 2018 the volume of refinancing loans increased by 25.4% from a year ago and thus reached HUF 169.3 billion. Out of this stock HUF 105.2 billion represents assets vis-à-vis external banking partners. The refinancing loan portfolio vis-à-vis the Commercial Bank Ltd. amounts to HUF 64.1 billion.

Last year the increase in the refinanced portfolio is explained significantly by the change to the MFAR (Mortgage Financing Adequacy Ratiowhich was raised from 15% to 20% as of October 1, 2018. This resulted in higher refinancing activity by the Bank, and also in an increase of refinancing agreements with new partners.

3.4 PORTFOLIO QUALITY, PROVISIONING

The Bank had HUF 288.77 billion classified assets, HUF 1.58bn contingent liabilities (altogether HUF 290.4 billion), and HUF 3.9 billion future commitments (from swaps) as of December 31, 2018.

Claims on clients amounted to HUF 70.7 billion (24.35% of the portfolio excluding swaps), moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 1.58 billion (0.54%) at the end of 2018. Of these 2962 loan contracts were classified as non-performing with an underlying volume of HUF 8.19 billion in claims and HUF 20 million as commitments with HUF 2.2 billion in impairments and provisions.

The stock of refinancing loans was HUF 169.3 billion (58.3% of the classified portfolio), which is entirely classified as problem free.

The Bank made deposits at seven commercial banks in the form of sight or term deposits in a combined value of HUF 13.49bn (4.65% of the portfolio).

The Bank had ownership in two companies: the Commercial Bank and the Integration Organization of Coopertaive Credit Institutions. The book value of these investments was HUF 35.29 billion, of which HUF 35.28 billion is was subject to classification. For this stake of ownership HUF 3.3 billion impairment was allocated

HUF 3.85 billion in the form of future commitments (from swaps) had no need for provisioning at the end of 2018.

The share of problem free loans increased both in the entire and the loan portfolio compared to end of the third quarter of 2018.

As of December 31, 2018 85.02% of the the classified portfolio (excluding swaps) was considered as performinghence the non-performing share amounted to 14.98%. In the loan portfolio the share of non-performing stock amounted to 12.44%, down from 17.12% a year before.

Average impairment considerably increased both in the entire portfolio (1.89%) and the loan portfolio (3.04%) compared to end-2017.

3.5 SECURITIES ISSUES

As a result of capital market transactions in 2018 the Bank raised HUF 163.4bn in new funds, of which HUF 143.4 billion in the form of mortgage bonds, HUF 20 bn in the form of uncovered bonds. This volume was raised through 16 issuances, of which two took place through quotation and fourteen through auction. In each issuances the entire spectrum of the Bank's dealers were involved. On the course of the transactions five different series of mortgage bonds and one series of uncovered bonds were put into circulation. Only fixed rate mortgage bonds denominated in HUF, with maturities between 5 and 10 years were issued in 2018, while the uncovered bond series had two years of remaining maturity.

Compared to the preceding years not only issuance, but also repurchase activity was stronger in 2018. Altogether HUF 80.5 billion of mortgage bonds were repurchased, affecting eight different series. Mostly variable rate papers were repurchased by the Bank, with only one repurchase transaction involving a fixed rate paper in the value of HUF 12 billion.

Three series of mortgage bonds expired in 2018 in HUF 15.2 billion and EUR 6.94 million total value, and also three series of uncovered bonds expired in HUF 2.7 billion and EUR 3.5 million total value.

In accordance with the relevant statutory provisions the Bank has undertaken to keep a stricter mortgage bond coverage ratio. Accordingly, the aggregate amount of ordinary collateral (net of impairment losses) plus supplementary collateral principal each day exceeded the aggregate nominal value of outstanding mortgage bonds in circulation. The same adequacy rule prevailed with respect to interest-to-interest.

In accordance with the provisions of the Act on Mortgage Loan Companies and Mortgage Bonds and in keeping with its Rules on Collateral Registration, the Bank monitored the loan coverage situation and the compliance with the requirement of proportionality. In order to ensure appropriate mortgage bond coverage the Bank verified, upon disbursement of the loan, whether the conditions for ordinary collateral were met.

The net collateral value of real estate covering mortgage bonds issued by the Bank was HUF 269.2 billion as of December 31, 2018, 10.3% above the figure prevailing at December 31, 2017 (HUF 244.1 billion).

Value of mortgage bonds and assets involved as collateral as of 31 December 2018

HUF million	December 31, 2017	December 31, 2018	Change
Outstanding mortgage bonds in circulation			
Face value	176 693	222 451	25.9%
Interest	20 974	32 607	55.5%
Total	**197 667**	**255 058**	**29.0%**
Value of ordinary collateral			
Principal	198 021	222 731	12.5%
Interest	46 103	46 533	0.9%
Total	**244 124**	**269 264**	**10.3%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	22 864	32 676	42.3%
Mortgage bonds	0.0	3 500	-
Total	**22 864**	**36 0176**	**57.6%**

As of 31 December 2018, the present value of ordinary collateral was HUF 275.6 billion and the present value of mortgage bonds was HUF 239.4 billion, thus the present value of collateral exceeded significantly that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 115.12%.

The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 116.3%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 143.4% as of December 31, 2018.

3.6 BALANCE SHEET STRUCTURE

As of 31 December 2018, the Bank's balance sheet total according to HAS amounted to HUF 333.3 billion, an increase of 9.7% compared to a year before. On the assets side it was mainly an increase in interbank and refinanced loans that explain the growth in total assets, the former expanding by HUF 11.2 billion, while the latter by HUF 34.3 billion. On the liabilities side the HUF 62 billion growth in the stock of issued securities was instrumental, but there was less need for interbank financing, hence interbank deposits decreased by HUF 34,1 billion. Shareholders' equity increased by HUF 2.5 billion compared to end-2017.

HUF million*	31/12/2017	31/12/2018	Change
Interest earning assets	**269 811**	**292 912**	**8.6%**
Interbank loans	2 630	13 803	424.8%
Securities	40 571	39 106	-3.6%
Refinanced loans	134 972	169 286	5.4%
Gross client loans	81 638	70 716	-13.4%
Subordinated loans	10 000	0	-100.0%
Impairment losses	**-4 975**	**-2 199**	**55.8%**
Non interest earning assets	**38 995**	**42 579**	**9.2%**
Cash	22	10	-5.4%
Investments	31 988	31 988	0.0%
Own shares	207	207	0.0%
Tangible assets	337	198	-41.2%
Intangible assets	429	383	-10.7%
Other assets	1 968	593	-69.9%
Deferred charges	4 043	9 200	127.5%
Total assets	**303 831**	**333 292**	**9.7%**
Interest bearing liabilities	**233 868**	**261 757**	**11.9%**
Issued securities	187 172	249 186	33.1%
Client deposits	32	26	-20.3%
Interbank deposits	46 664	12 545	-73.1%
Other liabilities	**12 246**	**11 295**	**-7.8%**
Provisions	1 211	557	-54.0%
Other liabilities	1 720	1 186	-31.1%
Accrued charges	9 315	9 553	2.6%
Total shareholders' equity	**57 717**	**60 240**	**4.4%**
Share capital	10 849	10 849	0.0%
Capital surplus	52 747	52 747	0.0%
General reserves	460	712	54.8%
Retained earnings	-10 687	-6 546	38.7%
Other reserves	207	207	0.0%
Balance sheet profit	4 141	2 271	-45.2%
Total liabilities and shareholders' equity	**303 831**	**333 293**	**2.9%**

* The Balance sheet has been compiled in accordance with controlling intentions, resulting in a different structure from categories used by normal accounting standards.

3.6.1 Interest earning assets

By December 31, 2018 the Bank's interest earning assets increased to HUF 292.8 billion (up 8.6%) from the previous year's HUF 269.9 billion. Of this the stock of refinanced loansincreased by 25.4% under twelve months, while the stock of client loans – which is extended through the Commercial Bank and its network of agents – contracted by HUF 10.2 billion, i.e. by 13.4% and thus amounted to HUF 70.7 billion at the end of 2018. This stock took up a 24.1% share within all interest bearing assets; a decrease of 6.2 percentage points compared to end-2017. The stock of household mortgage loans were HUF 61.3 billion at the end of 2018, down by HUF 10.1 billion (-14.1%) compared to a year before.

3.6.2 Investments and intangible assets

The value of investment in other companies amounted to HUF 35.3 billion as of 31 December 2018, unchanged from the end of 2017. The net value of shares owned by the Bank in affiliated companies was HUF 31.9 billion (all in the Commercial Bank) at the same date.

The net value of intangible assets (effectively the value of business softwares) was HUF 383 million at the end of 2018.

3.6.3 Other assets

The volume of other assets amounted to HUF 593 million, implying 69.9% decrease compared to a year before. Among these the value of real estate kept with business purposes amounted to HUF 19.4 million.

3.6.4 Interest bearing liabilities

At the end of 2018 85% of interest bearing liabilities were made of mortgage bonds issued by the Bank to secure the long-term financing of mortgage loans. The face value of mortgage bonds issued by the Bank amounted to HUF 222.5 billion as of December 31, 2018, up by 25.9% compared to a year before.

As a result of uncovered bond issuances – as a supplementary activity on securities markets alongside mortgage bond issuances – the value of uncovered bonds kept in the company's books amounted to HUF 26.7 billion, which is HUF 16.3 billion higher than it was at the end of 2017.

Deposits from interbank transactions amounted to HUF 12.5 billion at the end of 2018, significantly down from HUF a year previously. The lion's share of this stock is a liability vis-à-vis the Commercial Bank.

3.6.5 Shareholders' equity

The Bank's shareholder's equity was HUF 60.2 billion at the end of 2018, up HUF 2.5 billion from end-2017. According to legal obligations capital adequacy requirements should be met on the unified Integration level. This was comfortably achieved at the end of 2018.

3.6.6 Off balance sheet items

Unused credit lines and the value of commitments amounted to HUF 15.7 billion at the end of 2018. The value of future commitments increased from the previous year's HUF 1 billion to HUF 3.8 billion due to interest rate derivative deals, which were connected to hedging transactions related to the issued mortgage bonds and uncovered bonds.

3.7 PROFIT & LOSS STRUCTURE

HUF million*	2017 FY	2018 FY	Change (%)	Change

Net interest earnings	4 591	3 919	-14.6%	-672
Interest income	12 586	10 546	-16.2%	-2 040
Interest expenditure	-7 995	-6 627	-17.1%	1 368
Net fees and commissions	-703	-882	25.5%	-179
Income from fees and commissions	650	610	-6.2%	-40
Expenses on fees and commissions	-1 353	-1 492	10.3%	-139
Net financial transactions	14	-95	-	-109
Dividend income	393	234	-40.5%	-159
Total net income	**4 295**	**3 176**	**-26.1%**	**-1 119**
Operational costs	-4 646	-1 737	-62.6%	2 909
Net financial income	**-351**	**1 439**	**-**	**1 790**
Net effect of assignments and write-offs	1 295	1 505	16.2%	210
Net effects of impairments and provisioning	-921	-498	-45.9%	423
Net operating income	**23**	**2 446**	**-**	**2 423**
Net other income	5 536	702	-87.3%	-4 834
Other revenues	1 522	809	-46.8%	-713
Other expenditures	-195	-107	-45.1%	88
Income on investments	4 209	0	-100.0%	-4 209
Taxes, fees to authorities	-958	-625	-34.8%	333
Pre-tax profit	**4 601**	**2 523**	**-45.2%**	**-2 078**
Tax obligation	0	0	-	0
After-tax profit	**4 601**	**2 523**	**-45.2%**	**-2 078**
Accumulation of general reserves	-460	-252	-45.2%	208
Balance sheet profit	**4 141**	**2 271**	**-45.2%**	**-1 870**

* The profit/loss sheet has been compiled in accordance with controlling intentions, resulting in a different structure from categories used by normal accounting standards.

The Bank's net financial income in 2018 was HUF 1.4 billion, markedly better than a year ago. Due to the reclassification of price revaluations of the issued mortgage bonds, as net interest income, this item showed 14.6% lower balance in 2018 than a year ago. More than counterbalancing this, however, operational costs amounted to only HUF 1.7 billion in 2018, a marked 62.6% fall compared to 2017.

3.7.1 Net interest income

Net interest income was HUF 3.9 billion in 2018, which resulted from HUF 10.5 billion interest earnings (16.2% decrease compared to 2017) and HUF 6.6 billion interest expenditures (down by 17.1% compared to the previous year). There were HUF 880 million decrease in income from client loans, whereas income from swaps increased by 35% compared to 2017. Interest expenditures reflect somewhat stronger decrease in 2018 than incomes. Expenditures on securities issued decreased by HUF 1.2 billion alone in 2018, thus being the most important factor behind the lower figure. Interest expenditure on swaps increased by HUF 32 million, but that on interbank deposits decreased by HUF 135 million.

The net interest margin (relative to the average balance sheet total) was 1.4% in 2018, up from 2017's 1%.

3.7.2 Net fees and commissions

The net income from fees and commission showed a loss of HUF 882 million in 2018 as opposed to HUF 702 million loss back in 2017. Income on fees connected to lending was HUF 40 million lower than a year ago, whereas expenditures connected to lending went up by HUF 140 million.

3.7.3 Net financial transactions

The balance of financial transactions significantly deteriorated in 2018: compared to the previous year it was lower by HUF 109 million thus sliding into a minor loss of HUF 95 million. The main reason ot it the IRS cost increase (in 2017 35 miilion HUF and in 2018 150 million HUF).

3.7.4 Other income

Net other income amounted to HUF 702 million, contracting by 87.3% from 2017's HUF 5.5 billion. The majority of this (HUF 4.2 billion) is explained by no income after sales of investments last year, but other revenues also decreased quite substantially (by HUF 809 million, i.e. by 46.8%)

3.7.5 Operating expenses

HUF million*	2017	2018	Change	Change
Personal costs	1 451	838	-42.2%	-613
General and administrative costs	1 820	415	-77.3%	-1 405
Costs of IT	1 232	443	-64.0%	-789
Depreciation	143	41	-71.3%	-102
Total operating costs	**4 646**	**1 737**	**-62.6%**	**-2 909**

* The table has been compiled in accordance with controlling intentions, resulting in a different structure from categories used by normal accounting standards.

Following a 62.6% decline, the operational costs of the Bank amounted to HUF 1.7 billion in 2018, as opposed to HUF HUF 4.6 billion in 2017. The main sources of this decline were marked shrinking in general and administrative costs (HUF 1.4 billion less), personal costs (HUF 600 million less) and IT costs (HUF 800 million less). Most of these declines are connected to the organizational restructuring of the Bank, although there was a sizable decrease in the fees paid to consultants and marketing agencies as well.

3.7.6 Impairment and loan losses

The net balance of impairments and provisioning was HUF 498 million in 2018.

The Bank intended to streamline or change the IT systems it currently uses. Takarékinfó Zrt. (the IT service provider) notified the Bank that it is going to scrap the underlying softwares should they become superfluous. To cover for the expected reimbursement the Bank set aside HUF 821 million in provisions on December 31, 2017, which was partly utilised, partly disengaged during 2018. The remaining volume is currently HUF 64 million.

In 2018 the Bank expressed its will to make further changes to its IT systems and to develop new systems that would fit into Takarék Group's new business strategy. For the future commitments the Bank again made provisions to the tune of HUF 479 million.

3.7.7 Addition to/use of general reserves

In compliance with its legal obligations the Bank made an addition to its general reserves in 2018 in a volume of HUF 252 million. With this the stock of general reseves increased to HUF 712 million.

4 LIQUIDITY MANAGEMENT

In accordance with the special legal status of the Bank, the institution is not allowed to collect client deposits, thus among its liabilities the main components are mortgage bonds, other uncovered bonds and interbank liabilities. The Bank covers its liquidity positions mostly against other entities within the Takarék Group. The Bank is entitled to cover its amount of refinanced and self-issued loans by mortgage bonds only to the extent of its capital, which can be taken into account in the coverage pool. As a consequence of this, liquid assets needed to meet the 13% coverage excess and 12-month liquidity buffers are financed from uncovered liabilities.

In the observed period the funding structure of the Bank was markedly affected by the continued increase of the amount of refinanced loans, as well as the MNB's mortgage bond purchase plan, under which the Bank issued only fixed rate mortgage bonds. The amount of refinanced loans – similarly to 2017 – increased by HUF 34 billion in 2018, which equals to nearly 25% growth on annual terms. This was also motivated by the increase in the Mortgage Financing Adequacy Ratio (MFAR) from the previous 15 to the current 20%, which raised the need from partner institutions for refinancing, but the meeting of Takarék Group's own MFAR compliance obligation also enhanced the additional need for mortgage bond coverage. A sizable portion of mortgage bond coverage through refinancing was nevertheless made at variable rates, hence the Bank entered into various interest rate swap deals during the year with a view to cover open interest rate positions.

Developments in the structure of the Bank's liabilities

The stock of unsecured bonds significantly increased in 2018, from HUF 10.5 to HUF 26.7 billion, i.e. by 154%. This was due to the fact that against HUF 3,8 billion expiry, new issuance reached HUF 20 billion.

The amount of mortgage bonds increased by 26% (HUF 45.8 billion) in the last year. From a face value of 176.7 billion at the end of 2017 the stock reached HUF 222.5 billion by the end of 2018. Gross issuance amounted to HUF 143. 4 billion, but expiries and massive repurchases also took place. The dynamic growth of the stock of mortgage bonds is expected to continue in 2019 due to the already announced further rise of the MFAR from 20 to 25%, which increases refinancing needs and mortgage bond issuances to draw the necessary funds.

Meanwhile, the volume of net interbank liabilities shrank substantially from HUF 46.6 billion at the end of 2017 to HUF 12.6 billion (-HUF 34 billion), mainly due to the increase in funds through bond issuances.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

The Bank is a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ). Due to this membership the rules and principles of risk management policies in the Integration, as well as the risk strategy are also extended to the Bank.

The risk strategy, which was approved by the Board of Directors of MTB and is mandatory for all credit institutions and other companies within the Takarék Group under the consolidated supervision performed by MTB cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and willingness for risk taking, risk structure, risk management, the structure and organization of risk management.

The Integration and its member institutions pursue to create an integrated risk culture, which covers the entire Integration, and which is in line with their risk appetite and risk tolerance to ensure the identification, measurement and management of emerged risks. The primary tools for creating this risk culture are internal policies, strategies, regulations and guidelines, internal communication and the continuous training of employees.

The MNB terminated the obligation of the Bank to comply with the prudential requirements in the second to fourth and sixth to eighth parts of the CRR on a subconsolidated basis from January 1, 2017. At the same time it exempted the Bank from the individual fulfillment of the second to eighth part of the CRR. The Bank must comply with the requirements of the Integration Organisation of Cooperative Credit Institution and its central bank.

The primary goals of risk management in the Bank are to protect its financial strength and reputation, and contribution to the use of capital for competitive business activities, which results in the increase of shareholder value. The protection of financial strength and reputation means that risk management should limit the impact of infavourable events both on the capital and the profit of the Bank.

The Bank's willingness to take risks must be in line with the financial resources available to cover possible losses. To achieve this, the Bank calculates current and future capital requirements for quantifiable risk types, just like the capital requirements under the first Pillar.

The Bank considers prudent risk management as a vital value.

The Bank is primarily exposed to credit, liquidity, market and operational risks.

5.2 CREDIT RISK

The main activity of the Bank is the refinancing of the mortgage portfolio of its partner banks. The Mortgage Financing Adequacy Ratio (MFAR) introduced by MNB created a business opportunity for mortgage credit institutions by supporting them to issue refinance loans with similar maturity profile as that of the long-term residential mortgage loans of partner banks, helping them in eliminating their Forint maturity mismatches. This provided an exceptional opportunity for Takarék Mortgage Bank to acquire new business partners and to boost its refinancing activities.

The activity had to be reconsidered by risk management: risk parameters had to be defined, limits on the size of risk taking vis-à-vis partner banks had to be established.

In the first quarter the limit system for corporate loans was updated, which defined the directions of risk taking in 2018.

Risk management also took part in the review of lending procedures in the retail segment. They reviewed the Takarék Group’s income verification regulations, updated the relevant manual and developed the version to be used by intermediaries and other partners. Risk management also prepared the income verification policies to be used with regard to the Consumer Friendly Loan Product(s) initiated by the MNB.

5.3 LIQUIDITY AND MATURITY RISK

Maintaining liquidity is an essential element of banking activity. The Bank maintains its liquidity by adjusting the maturity profile of its assets and liabilities. In the framework of asset and liability management (ALM) the Bank mitigates maturity risk through both the repurchase of the securities issued earlier and new issuances. At the same time, it applies maturity transformation regulated by pre-defined limits in order to improve profitability, while maintaining solvency at all times. The Bank regularly reviews prepayments and early payments initiated by clients and takes into consideration their impact on managing market and liquidity risks.

The Bank prepares its liquidity plans and financing positions based on expectations derived from different scenarios, and also pays attention to the possible effects of stress situations. The level of liquid assets is kept continuously high.

5.4 EXCHANGE RATE RISK

The Bank is a specialized credit institution, which significantly narrows the scope of business activites, where exchange rate related risks may arise. Moreover, it is the Bank’s explicit policy to keep exchange rate risk at a low level.

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions support this. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or active and passive provisions in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

Interest rate risk stems from interest rate changes, which impact the value of financial instruments. The Bank is also exposed to interest rate risk, when the amounts of assets, liabilities and off-balance sheet instruments maturing or being revaluated in a particular period are not in accordance with each other.

The Bank is monitoring interest rate risk on a continuous basis by Gap analysis, VaR calculations and sensitivity analysis and mitigates exposures by setting limits. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as the repurchase of mortgage bonds, swap deals as well as adjusting mortgage bond maturities and interest rates to correspond to the underlying assets are involved in order to ensure the harmony between assets and liabilities.

5.6 OPERATIONAL RISK

Operational risks are handled through the continuous improvement of internal regulations and procedures, the adequate training of employees and the enhancement of built-in control mechanisms. The Bank collects and analyses loss data due to operational risk and the Key Risk Indicators (KRI). The KRIs are reviewed each year, thus in 2018 various KRIs were modified and new KRIs were defined as well.

The Bank compiles and updates the map of operational risks through its annual self-assessment. The Bank also identifies those infrequent occurancies, which could result in heavy losses, and measures their impact by scenario analysis.

The Bank compiled an inventory for the used risk models in accordance with the surveillance requirements and a list of products to identify product-specific risks.

5.7 OTHER

In 2018 the MNB exempted the Bank from the publication requirements of its compliance with CRR on an individual basis.

6 ORGANIZATION CHANGES AND HEADCOUNT

The Bank functions as a classic mortgage bank from 2018, so it handed over its business and mortgage loan extending and managing functions to the Commercial Bank, while its former group control, supervision and support functions with the underlying infrastructure was passed on to MTB.

The organizational changes at the Bank in 2018 were driven by the “Head Office” project, which targeted the restructuring of the central, administrative bodies of Takarék Group. In the wake of the project organizational changes served partly the functional integration of the Bank into the final setup of the Takarék Group and pointed towards the establishment of unified control functions within it.

The average number of employees of the Bank in 2018 was 36 (9 full-time, 26 part-time employees and one pensioner). The rate of fluctuation (calculated as the ratio of the number of employees leaving to the average number of employees within the calendar year) was 69.4%.

7 PROTECTION OF ENVIROMENT

Although the Bank does not pursue business and non-profit activities related to environmental protection, it strives to ensure an environment-friendly workplace, maintains and cares the natural and ornamental plants in its environment. It pursues taking energy-saving solutions during its operation. In its internal trainings it emphasizes the importance of energy and environmentally conscious corporate and employee behavior.

8 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

Under the label of other services in 2018 the auditing company invoiced the Bank. HUF 1.8 million for examining whether the Bank meets the conditions to convert to reporting according to IFRS, while it invoiced HUF 5.5 million for preparing a special report required from the Bank by the MNB.

9 POST BALANCE SHEET DATE EVENTS

Meeting its legal obligation the Bank starts keeping its books according to the IFRS as of January 1, 2019. From that date Takarék Mortgage Bank performs its accounting and reporting activity according to the international financial reporting standards.

According to the Integration's strategic guidelines (approved on the general meeting of MTB on november 30, 2018), the Commercial Bank (the Bank's subsidiary) will be merged into the newly created Takarékbank in the first half of 2019. This also involves the migration of legal and IT systems; the Commercial Bank continues to perform its activities in the context of the new universal commercial bank to be created by the merger of the cooperative credit institutions of the Integration.

Decisions taken so far in view of the planned merger have no legally binding consequence on the ownership structure of entities within Takarék Group, hence neither on the Bank itself.

Budapest, 2 April, 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Board Member

Appendix

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Net interest income	**2 406**	**1 513**	**3 919**	
Exchange gains on issued mortgage bonds		2 017		From profit on financial operations to net interest income
Exchange loss on issued mortgage bonds		-504		From profit on financial operations to net interest income
Net commission and fees income	**-812**	**-70**	**-882**	
Transaction fee		-2		From profit or loss of non-financial and non-investment services to net commission and fees income
Own share expenses		-11		From operating expenses to net commission and fees income
Acquisition commissions		-61		From operating expenses to net commission and fees income
Collection commission		-4		From profit or loss of non-financial and non-investment services to net commission and fees income
CSIP commission (sale of property on defaulted loans)		-29		From profit or loss of non-financial and non-investment services to net commission and fees income
Execution fees		0		From operating expenses to net commission and fees income
Mortgage bond – consulting fees		-112		From operating expenses to net commission and fees income
Mortgage bond – mandatory disclosure fees		-1		From operating expenses to net commission and fees income
Mortgage bond – legal fees		0		From operating expenses to net commission and fees income
IRS fee		151		From net commission and fees income to net profit on financial operations
Net profit on financial operations	**1 569**	**-1 664**	**-95**	
IRS fee		-151		From net commission and fees income to net profit on financial operations
Exchange gains on issued mortgage bonds		-2 017		From net profit on financial operations to net interest income
Exchange loss on issued mortgage bonds		504		From net profit on financial operations to net interest income
Dividend income	**234**	**0**	**234**	

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Operating expenses	**-3 465**	**1 728**	**-1 736**	
Costs of queries of Takarnet		0		From operating expenses to net commission and fees income
Own share expenses		11		From operating expenses to net commission and fees income
Appraisal fees related to credits		0		From operating expenses to net commission and fees income
Acquiring brokerage fees		61		From operating expenses to net commission and fees income
Collection brokerage fees		0		From operating expenses to net commission and fees income
CSIP brokerage fees (investment property sale)		-4		From operating expenses to net commission and fees income
Execution fees		0		From operating expenses to net commission and fees income
Mortgage bond – consulting fees		112		From operating expenses to net commission and fees income
Mortgage bond – mandatory disclosure fees		1		From operating expenses to net commission and fees income
Mortgage bond – legal fees		0		From operating expenses to net commission and fees incom
Vehicle tax		-2		From profit or loss of non-financial and non-investment services to operating expenses
Property tax		0		From profit or loss of non-financial and non-investment services to operating expenses
Company car tax		-7		From profit or loss of non-financial and non-investment services to operating expenses
SLA – other opertating expenses		924		From profit or loss of non-financial and non-investment services to operating expenses
SLA – depreciation		76		From profit or loss of non-financial and non-investment services to operating expenses
SLA – IT costs		399		From profit or loss of non-financial and non-investment services to operating expenses
Costs of IT services		584		From operating expenses to impairment
SLA – personal expenses		-428		From profit or loss of non-financial and non-investment services to operating expenses

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Net profit on sale of receivables	**0**	**1 505**	**1 505**	
Impairment on loans and receivables		-884		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - default		392		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		0		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – disposal		66		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		1		From impairment gains and losses to net profit on sale of receivables
Sale of assets received through collateralization – expense		-131		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of own receivables – expense		-2 867		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Impairment utilization on loans and receivables - disposal		1 120		From impairment gains and losses to net profit on sale of receivables
Impairment loss on irrevocable claim		-3		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Credit loss on sale of SAP NET		-38		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Duty fee in connection with enforcement		-2		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Enforcement fees		0		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Consultancy fees in connection with enforcement		-3		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Waived claim		-58		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Reversal of impairment on loans and receivables – default		1 430		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		4		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - disposal		599		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		10		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - loss		30		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - waived		47		From impairment gains and losses to net profit on sale of receivables
Sale of assets received through collateralization – income		102		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Sale of own receivables - income		1 676		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Revenue of sold and written of own receivable		1		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Claim termination, recoverable costs		13		From profit or loss of non-financial and non-investment services to net profit on sale of receivables

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Profit and loss changes due to changes in impairment and provisions	**2 359**	**-2 857**	**-498**	
Impairment on loans and receivables		884		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - default		-392		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		0		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – disposal		-66		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-1		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - disposal		-1 120		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables – default		-1 430		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - loss		-4		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - disposal		-599		From impairment gains and losses to net profit on sale of receivables
Reversal of impairment on loans and receivables - waived		-10		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - loss		-30		From impairment gains and losses to net profit on sale of receivables
Impairment utilization on loans and receivables - waived		-47		From impairment gains and losses to net profit on sale of receivables
Reversal of expected future cost provision		300		From profit or loss of non-financial and non-investment services to impairment
Reversal of impairment according to HAS from prior periods		31		From profit or loss of non-financial and non-investment services to impairment
Reversal of provision from prior periods – pension, severance payment		49		From profit or loss of non-financial and non-investment services to impairment
Losses due to termination of loan agreements		-15		From profit or loss of non-financial and non-investment services to impairment
Impairment according to HAS		0		From profit or loss of non-financial and non-investment services to impairment
Impairment according to HAS: receivables from customers		-3		From profit or loss of non-financial and non-investment services to impairment
Costs of IT services		-583		From operating expenses to impairment
Expected future cost		178		From profit or loss of non-financial and non-investment services to impairment

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Profit or loss of non-financial and non-investment services	**386**	**316**	**702**	
Claim termination, recoverable costs		-13		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Rental fee income from real estate		-4		From profit or loss of non-financial and non-investment services to operating expense/result
Income from other IT services		-1		From profit or loss of non-financial and non-investment services to operating expense/result
Fee income from facility management of real estate		-6		From profit or loss of non-financial and non-investment services to operating expense/result
Rental fee income from real estate		-962		From profit or loss of non-financial and non-investment services to operating expense/result
Rental fee income from tangible assets		0		From profit or loss of non-financial and non-investment services to operating expense/result
Rental fee income from vehicles		0		From profit or loss of non-financial and non-investment services to operating expense/result
Fee income from facility management of tangible assets		0		From profit or loss of non-financial and non-investment services to operating expense/result
Fee income from facility management of vehicles		0		From profit or loss of non-financial and non-investment services to operating expense/result
Reversal of provision for expected costs from prior periods		-300		From profit or loss of non-financial and non-investment services to impairment
Reversal of impairment loss according to HAS		-31		From profit or loss of non-financial and non-investment services to impairment
Reversal of provision from prior periods – pension, severance payment		-49		From profit or loss of non-financial and non-investment services to impairment
Sale of assets received through collateralization - income		-102		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Profit on sale of own receivables		-1 676		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Income from sold/written off own receivables		-1		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Expenses on terminated loans		15		From profit or loss of non-financial and non-investment services to impairment
Duty fee in connection with enforcement		2		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Enforcement fee		0		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Consultancy fees in connection with enforcement		3		From profit or loss of non-financial and non-investment services to net profit on sale of receivables
Collection commission		4		From profit or loss of non-financial and non-investment services to net commission and fees income
CSIP commission (sale of property on defaulted loans)		33		From profit or loss of non-financial and non-investment services to net commission and fees income
Impairment according to HAS: receivables from customers		3		From profit or loss of non-financial and non-investment services to impairment
Local business tax		131		From profit of loss of non-financial and non-investment services to taxes from operations

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Vehicle tax		2		From profit or loss of non-financial and non-investment services to operating expense/result
Property tax		0		From profit or loss of non-financial and non-investment services to operating expense/result
Company car tax		7		From profit or loss of non-financial and non-investment services to operating expense/result
Expected future cost		-178		From profit or loss of non-financial and non-investment services to impairment
Transaction fee		2		From profit or loss of non-financial and non-investment services to net commission and fees income
Resolution fund – contribution		69		From profit of loss of non-financial and non-investment services to taxes from operations
Innovation contribution		20		From profit of loss of non-financial and non-investment services to taxes from operations
Self-check penalty		0		From profit of loss of non-financial and non-investment services to taxes from operations
Cooperative Credit Institutions Capital Fund – contribution		112		From profit of loss of non-financial and non-investment services to taxes from operations
The Integrational Organization of Cooperative Credit Institutions – membership fee		105		From profit of loss of non-financial and non-investment services to taxes from operations
National Bank – Supervision fee		34		From profit of loss of non-financial and non-investment services to taxes from operations
Sale of assets received through collateralization - expense		131		From profit of loss of non-financial and non-investment services to taxes from operations
Loss on sale of own receivables		2 867		From profit of loss of non-financial and non-investment services to taxes from operations
Impairment loss on irrevocable claim		3		From profit of loss of non-financial and non-investment services to taxes from operations
Credit loss on sale of SAP NET		38		From profit of loss of non-financial and non-investment services to taxes from operations
Waived claim		58		From profit of loss of non-financial and non-investment services to taxes from operations

Description	Accounting results (HUF million)	Modification (HUF million)	Controlling results (HUF million)	Modification
Taxes – from operations	**0**	**-625**	**-625**	
Local business tax		-131		From profit of loss of non-financial and non-investment services to taxes from operations
Vehicle tax		-1		From profit of loss of non-financial and non-investment services to taxes from operations
Property tax		0		From profit of loss of non-financial and non-investment services to taxes from operations
Innovation fee		-20		From profit of loss of non-financial and non-investment services to taxes from operations
Tax for credit institutions		0		From profit of loss of non-financial and non-investment services to taxes from operations
Resolution fund – contribution		-69		From profit of loss of non-financial and non-investment services to taxes from operations
Cooperative Credit Institutions Capital Fund – contribution		-112		From profit of loss of non-financial and non-investment services to taxes from operations
The Integrational Organization of Cooperative Credit Institutions – membership fee		-105		From profit of loss of non-financial and non-investment services to taxes from operations
National Bank – Supervision fee		-34		From profit of loss of non-financial and non-investment services to taxes from operations
Credit Institutions allowance		0		From profit of loss of non-financial and non-investment services to taxes from operations
Banking tax		-154		From Tax to taxes from operations
Profit before taxes	**2 677**	**-154**	**2 523**	
Tax	**-154**	**154**	**0**	
Banking tax		154		From Tax to taxes from operations
Profit after tax	**2 523**	**0**	**2 523**	