Takarék Mortgage Bank Plc.

Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union and Independent Auditor's Report

December 31, 2019

Deloitte.

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Registered by the Capital Court of Registration
Company Registration Number: 01-10-044100

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarék Mortgage Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the Separate Financial Statements of Takarék Mortgage Bank Plc. (the „Bank") for the year 2019 which comprise the Separate Statement of Financial Position as at December 31, 2019 – which shows a total assets of MHUF 342,897 –, and the related Separate Statement of Profit or Loss, Separate Statement of Other Comprehensive Income – which shows a profit for the year of MHUF 2,140 –, Separate Statement of Changes in Equity and Separate Statement of Cash Flows for the year then ended and 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, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

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	**How our audit addressed the matter**
Calculation of expected credit losses on loans assessed on portfolio-level	
(See Sections 17 of Notes to the Separate Financial Statements for the details) As at December 31, 2019 the Bank shows net value of loans to customers at amortised cost in an amount of MHUF 57,828 (gross amount MHUF 58,816) in connection with MHUF 988 provision has been recognized. The calculation of expected credit losses of loans assessed on portfolio-level requires application of professional judgement and use of highly subjective assumptions by management. The most significant assumptions applied in provisioning calculation are the followings: - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of expected credit loss of loans assessed on portfolio-level was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - testing design and operative effectiveness of key controls relating to monitoring of loans and calculating and recording of impairment, - test of staging through portfolio level analysis and the staging methodology applied by the model, - robust challenge of management estimates related to the provisioning, - assess the collective model methodology and testing the calculations in terms of risk parameters (probability of default - PD, loss given default - LGD, expected credit loss - ECL, macroeconomic factors) applied by the collective models by involving of experts, recalculation of impairment, - comprehensive analysis of loan portfolio.

Other Information

Other information comprises the information included in the Responsible Corporate Governance Report and the business report of the Bank for 2019, 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 relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's 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, and to express an opinion on the above and on whether the business report is consistent with the financial statements. 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 2019 corresponds to the financial statements of the Bank for 2019 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 International Financial Reporting Standards as adopted by the European Union, 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 going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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 use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 25, 2019 and our uninterrupted engagement has lasted for 8 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 March 31, 2020 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 business report.

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

Budapest, March 31, 2020

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Gábor Molnár
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: 007239

Takarék Mortgage Bank Public Limited Company
Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2019

Separate Financial Statements in Accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2019

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GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Dr. Zsolt Harmath

Members of the Board of Directors
Dr. Gyula Nagy
Attila Mészáros
Éva Hegedűs
Gábor Gergő Soltész
Pál Sass

Responsible person for the control and management of accounting services:
Ildikó Brigitta Tóthné Fodor

Auditor company
Deloitte Auditing and Consulting Ltd.

Statutory registered auditor
Gábor Molnár

Consolidated financial statements are prepared by the Bank. As the parent company of the Bank, - MTB Bank of Hungarian Saving Cooperatives Co. Ltd. - is prepared the Bank's consolidated financial statements regard to the companies included in the scope of consolidation.

The annual report does not contain the Business Report, that is prepared by the Bank every year and provided for to be available for inspection on the Bank's website and at the registered office.

Seat of the Bank, central office
Budapest
Magyar Tudósok körútja 9. G. ép.
1117

Separate Statement of Profit or Loss for the year ended 31 December 2019

	Notes	2019	2018
Interest income	4	10,261	11,087
Interest expense	4	(7,698)	(8,385)
Net interest income		**2,563**	**2,702**
Fee and commission income	5	591	610
Fee and commission expense	5	(436)	(1,449)
Net fee and commission income		**155**	**(839)**
Dividend income		-	234
(Loss)/Profit from foreign exchange transactions	6	(10)	4
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	423	3,002
Gains on financial assets and liabilities held for trading	8	2,319	1,526
(Losses) from hedge accounting		(913)	-
Gains on financial assets and liabilities designated at fair value through profit or loss		147	156
Net trading result		**1,966**	**4,922**
Gains on derecognition of non-financial assets, net	9	41	22
Other operating income	9	787	1,078
Other operating expense	9	(8)	(12)
Operating income, net		**5,504**	**7,873**
Provisions	25, 30	14	633
Impairment on financial assets not measured at fair value through profit or loss	30	380	412
Reversal of impairment on non-financial assets	20	(121)	(3)
General and administrative expenses	10	(3,337)	(3,994)
Modification gains, net		6	-
Profit before tax		**2,446**	**4,921**
Income tax expense	12	(306)	(241)
Profit for the year		**2,140**	**4,680**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Other Comprehensive Income for the year ended 31 December 2019

	Notes	2019	2018
Profit for the year		2,140	4,680
Other comprehensive income	**13**	**718**	**(106)**
Items that will not be reclassified to profit or loss		**9**	**-**
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	-
Income tax relating to items that will not be reclassified	13	9	-
Items that may be reclassified to profit or loss		**709**	**(106)**
Hedging instruments		(186)	-
Debt instruments at fair value through other comprehensive income		895	(116)
Income tax relating to items that may be reclassified to profit or (-) loss	13	-	10
Total comprehensive income for the year		**2,858**	**4,574**
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)		17,79	40,91
Diluted earnings per share (HUF)		17,79	40,91
Weighted average number of shares		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2019

	Notes	31 December 2019	31 December 2018	1 January 2018
Assets				
Cash, cash balances at central banks and other demand deposits	14	1,070	1,314	649
Financial assets held for trading	15	175	2,876	43
Financial assets at fair value through other comprehensive income	16	43,734	39,305	40,768
Financial assets at amortised cost	17	294,526	256,012	229,221
Derivatives – Hedge accounting	29	2,676	-	-
Investments in subsidaries, joint ventures and associates	18	-	31,978	31,978
Tangible assets	19,21	157	249	416
Intangible assets	20	241	383	429
Tax assets	12	-	218	434
Other assets	22	318	1,452	1,335
Total assets		**342,897**	**333,787**	**305,273**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2019

	Notes	31 December 2019	31 December 2018	1 January 2018
Liabilities				
Financial liabilities held for trading	15	136	831	-
Financial liabilities designated at fair value through profit or loss	23	6,552	7,437	7,386
Financial liabilities measured at amortised cost	24	269,895	262,393	238,829
Derivatives – Hedge accounting	29	288	-	-
Provisions	25	509	572	1,206
Tax liabilities		93	14	-
Other liabilities	26	381	355	241
Total liabilities		**277,854**	**271,602**	**247,662**
Equity				
Share Capital	27	10,849	10,849	10,849
Share premium		27,926	27,926	27,926
Accumulated other comprehensive income	27	992	274	380
Retained earnings		22,416	17,951	18,203
Other reserve	27	927	712	460
Treasury shares (-)	27	(207)	(207)	(207)
Profit for the year		2,140	4,680	-
Total equity		**65,043**	**62,185**	**57,611**
Total equity and total liabilities		**342,897**	**333,787**	**305,273**

Budapest, 31 March 2020

Dr. Gyula László Nagy
CEO

Takarék Jelzálogbank Nyrt. 1117 Budapest, Magyar Tudósok körútja 9. G. ép. TAKARÉK JELZÁLOGBANK

Attila Mészáros
Deputy CEO

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Cash Flows for the year ended 31 December 2019

	Notes	2019	2018
Cash flow from operating activities			
Profit for the year		2,140	4,680
Non-cash adjustments to net profit from			
Depreciation and amortization		270	171
Impairment/provision/ (-) Release of impairment/provision for losses		2,076	1,520
Provision/ (-) Release of other provision		(55)	(636)
Loss on tangible assets derecognized		16	(4)
Interest expense on the lease liability		(1)	(1)
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		(1,866)	-
Fair value adjustments on financial liabilities designated at fair value through profit or loss		(885)	51
Operating profit before change in operating assets		**1,695**	**5,781**
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		1,484	(2,002)
Loans and advances to customers at amortised cost		(40,598)	(-28,309)
Other assets		1,352	99
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		(2,834)	(8,999)
Other liabilities		(-3,605)	1,485
Net cash flow from operating activities		**(42,506)**	**(31,945)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Cash Flows for the year ended 31 December 2019 (continued)

	Notes	31 December 2019	31 December 2018
Cash flow from investing activities			
Proceeds from sales of tangible and intangible assets		(51)	46
Purchase of tangible and intangible assets		-	-
Sales of subsidiary		31,978	-
Net cash outflow from investing activities		**31,927**	**46**
Cash flow from financing activities			
Repayment of leasing liabilities		(42)	(46)
Repayment of long term loans		10,378	32,609
Net cash outflow from financing activities		**10,336**	**32,563**
Increase/ (-) Decrease in cash and cash equivalents		(244)	664
Opening balance of cash and cash equivalents		1,314	649
Closing balance of cash and cash equivalents		**1,070**	**1,313**
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		915	324
Due from banks with a maturity of less than 90 days		155	990
Closing balance of cash and cash equivalents		**1,070**	**1,313**
Supplementary data			
Interest received		*10,261*	*11,087*
Interest paid		*(7,698)*	*(8,385)*

All figures in tables are in HUF million except otherwise noted

Separate Statement of Changes in Equity for the year ended 31 December 2019

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
At 1 January 2018		**10,849**	**27,926**	**380**	**18,203**	**460**	**(207)**	**57,611**
Profit for the year		-	-	-	4,680	-	-	4,680
Other comprehensive income for the year		-	-	(106)	-	-	-	(106)
General reserve		-	-	-	(252)	252	-	-
At 31 December 2018		**10,849**	**27,926**	**274**	**22,631**	**712**	**(207)**	**62,185**
1 January 2019 - Opening		**10,849**	**27,926**	**274**	**22,631**	**712**	**(207)**	**62,185**
Profit for the year		-	-	-	2,140	-	-	2,140
Other comprehensive income for the year		-	-	718	-	-	-	718
General reserve		-	-	-	(215)	215	-	-
At 31 December 2019		**10,849**	**27,926**	**992**	**24,556**	**927**	**(207)**	**65,043**

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 31 March 2020. The final approval on the consolidated financial statements is provided by the General Meeting.

Name:	Takarék Mortgage Bank Plc.
Seat:	1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website adress:	https://takarek-csoport.hu/tarsasag
Mailing adress:	1908 Budapest
Phone number:	+36 1 3344 344
Registration number:	01-10-043638
Tax number:	12321942-4-44
KSH statistical number sign:	12321942-6492-114-01
Year of foundation:	1997

Chairman of the Supervisory Board:	Dr. Zsolt Harmath
Chairman of the Board:	József Vida
Chairman:	József Vida

Takarék Mortgage Bank Public Limited Company (hereinafter Takarék Mortgage Bank Plc., Mortgage Bank, Bank, Company) was established on October 21, 1997 under the name of FHB Land Credit and Mortgage Bank Company.
The Bank's operations are provided for by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (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 disbursement and refinance 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 Bank of Hungarian Savings Cooperatives Co. Ltd. (hereinafter MTB Ltd.) Group from 1st 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 Takarék 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. (hereinafter Commercial Bank) amongst their shares unsold until the date 29 October 2019. At this time Takarék Mortgage Bank sold with this transaction all of their 51% share in Takarek Commercial Bank to the MTB Ltd. The Takarék Commercial Bank is integrated into the scope of consolidation 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 pro-

All figures in tables are in HUF million except otherwise noted

vision and leasing activity), in 2019 are further provided by MTB to the Mortgage Bank and Takarék Commercial Bank Zrt., within the framework of SLA contract.
The Commercial Bank, as the agent of the Takarék Mortgage Bank Plc., were fully responsible for direct lending, furthermore performs loan aftercare and qualified loan management until the date 31 October 2019 then was merged into Takarékbank Ltd. Although, Takarék Commercial Bank, in order to have favourable funding costs, had part of their loans refinanced by the Takarék Mortgage Bank Plc. Following the merger of the Commercial Bank, the Takarékbank Ltd. carries out the credit management and qualified loan management activities in respect of the Mortgage Bank's own loan portfolio, and the Mortgage Bank refinances part of Takarékbank Zrt's mortgage loan portfolio. The Mortgage Bank starting in April 2018 doesn't provide its own credit.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in all material respects in accordance with the provisions of the Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statments in accordance with IFRS adopted by the EU. The auditor is issued in a separate report that the Bank is in compliance with the IFRSs adopted by the EU.

2.2. Functional and presentation currency

The separate financial statements are presented in Hungarian forint (HUF), that is the functional and presentation currency used by Bank. The figures are rounded to the nearest million, except if indicated otherwise.

2.3. Basis of measurement

The separate financial statements have been prepared on a historical cost bases, except for financial assets and liabilities held for trading, financial assets at fair value through other comprehensive income (FVOCI) and financial liabilities designated at fair value through profit or loss, that are recorded at fair value in the financial statements.

2.4. Change in accounting policies

2.4.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2019

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments** - Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement - adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

2.4.2. Impact of IFRS 16

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. However pursuant to IFRS 1 an entity shall apply same accounting policies in its opening IFRS balance sheet and its first IFRS financial statements too. This involves the Bank shall apply this standard for annual reporting periods beginning on or after 1 January 2018 yet. The Bank shall adjust the comparative information for the earliest prior period presented as if the new IFRS 16 standard had always been applied considering the exemptions by IFRS 1 admitted.

The Bank at the date of 1 January 2018 assessed under IFRS 16 whether a contract is, or contains, a lease.

The new IFRS 16 supersedes the current standard IAS 17 Leases, interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new IFRS 16 standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lessee's lease agreements. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. In some cases (e.g when there is a change in the lease term or if there is a change in future lease payments arising from a change in an index or rate) lessee shall remeasure the lease liability. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The standard elects to apply recognition exemptions for leases of short term and low value assets. However a lessor classifies leases as either a finance lease or an operating lease.

The Bank does not have sublease, sale and leaseback transactions and does not have right-of-use assets that meet the definition of investment property at the date of transition.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well. Compared to IAS 17, IFRS 16 requires the lessors to disclose more information about than earlier, however the main characteristics of the accounting treatment are unchanged.

The cumulative impact of initial application of IFRS 16 is recognised as an adjustment to equity at the start of the current accounting period in which it is first applied.

The Bank applies the following (practical) expedients/exemptions available:

- The lease liability shall measure at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs, on 1 January 2018.
- A right-of-use asset presented at the date of transition to IFRSs shall measure at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to IFRSs.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- Apply a simplified method for lease contracts mature within 12 months for the date of initial application, on 1 January 2018.The Bank shall account for these leases as if they were short-term leases.
- Apply a simplified method to lease contracts for which the underlying asset is of low value.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

2.4.3. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Separate Financial Statements of the Bank in the period of initial application.

2.4.4. Standards and Interpretations issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” és IFRS 7 “Financial Instruments: Disclosures”** – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Separate Financial Statements of the Bank in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Financial assets held for trading
- Securities at fair value through other comprehensive income
- Financial assets at amortised cost:
    - Due from banks
    - Loans and advances to customers at amortised cost
    - Securities
- Derivatives – Hedge accounting

The Bank groups the recognised financial liabilities as follows:

- Financial liabilities held for trading
- Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost (other financial liabilities):
    - Due to banks
    - Deposits from costumers
- Derivatives – Hedge accounting

3.2. Cash and cash equivalents

For the purpose of the Separate Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.
Cash and cash equivalents are presented in the statement of financial position at amortised cost.

3.3. Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.
Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.
Derivatives include forwards, futures, swaps and options.

3.4. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses (Fair value difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on this items are recognized consolidated statement of profit or loss. All investments in equity instruments that are not held for trading are classified as at equity intstruments measured at fair value through other comprehensive income. The Bank shall make an irrevocably election to measure the investments in equity instruments at initial recognition on an share-by-share basis. Equity instruments at fair value through other comprehensive income are measured at fair value and the total changes in fair value are presented in other comprehensive income. Amounts presented in other comprehensive income are not transferred to profit or loss, even if the investment were sold. The dividends earned on equity instruments are recognised in consolidated statement of profit or loss.

3.5. Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, partner banks sell independent and separated liens (which are used as collateral for housing loans) to the Bank. The independent and separated lien is then sold back to the partner banks such way that the repurchase of the independent lien is scheduled to mirror the principal repayment schedule of the particular mortgage loan of the partner bank's customer. The instalment from the partner banks is due irrespective of whether or not the partner bank receives repayments from its customer.
The individual mortgage loans of the partner banks' customers that are refinanced are in conformity with the relevant statutory requirements (being that these loans are performing). The classification is made, impairment is reported and receivables from the clients is reported for these individual loans by the partner banks. Refinanced mortgage loans are classified as performing because by purchasing the independent and separated lien the Bank gives a long-term loan to the partner commercial bank and the client risk is entirely borne by the partner banks, the risk the Bank bear is the credit risk of the partner banks.
Refinanced mortgage loans are presented at amortized cost less impairment losses.

3.6. Loans and advances to customers, due from banks at amortised cost

The Bank measures at amortised cost those Loans and placements with other banks, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank recognises as loans measured at fair value through profit or loss those financial assets, which are held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

3.7. Restructuring of loans

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank doesn't measure any significant gain or losses on the restructuring loans.

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, Bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on restructured loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

3.8. Impairment losses on loans

Impairment losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model allowance for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition, unless purchased or originated credit-impaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss. An assets that meet the definition of default criteria step into the third stage.
Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition in accordance with IFRS 9 (they meet the definition of default). For purchased or originated credit-impaired (POCI) assets shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses.

3.9. Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any.

The cost of an item of tangible and intangible asset includes the following elements:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and;
b) any costs directly attributable for the assets to be ready their intended use:

- costs of employee benefits,
- costs of site preparation,
- delivery and handling costs,
- insurance fees,
- installation and assembly costs,
- costs of testing,
- professional fees,
- costs of parts and maintenance equipments.

c) the initial estimate of the costs of dismantling and removing the item.

Following elements of costs that are not costs of an item of tangible asset are:
- costs of opening a new facility,
- costs of introducing a new product or service,
- costs of conducting business in a new location or with a new class of customer,
- administration and other general overhead costs.

Recognition of costs in the carrying amount of an item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs that incurred while an item capable of his intended operating has yet to be brought into use or is operated at less than full capacity are not included in the carrying amount. Furthermore neither initial operating losses nor costs of relocating or reorganising the Bank's operations are not included.

Depreciation is charged to the statement of profit or loss in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Property	2%
Leasehold improvement	6%
Equipment and furniture	9% - 33%
Software	10% - 33%
Rights representing assets	3.5% - 16.7%
Hardware	33% - 50%
Vehicles	20% - 33%
Other fixed assets	9% - 14,5%

Intangible assets have a definite useful life, excluding goodwill.

3.10. Leases

The Bank assessed all lease contracts entered into or modified after the date of 1 January 2018 under IFRS 16 whether a contract is, or contains, a lease.
Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets. An agreement transfers the rights to control the use of an identified asset, if:

- An agreement contains identified asset. An asset can also be identified by being explicitly or implicitly specified in a contract. An asset has to be physically distinct or it represents substantially all of the capacity of the asset. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.

All figures in tables are in HUF million except otherwise noted

- The customer has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.
- The customer has the right to direct the use of the identified asset throughout the period of use. The lessee has this right if, within the scope of its right of use defined in the contract, the customer has the right to direct how and for what purpose the asset is used throughout the period of use. In that case, the relevant decisions about how and for what purpose the asset is used are predetermined, the customer has the right to direct the use of that asset following one of:
  - the customer has the right to operate the asset throughout the period of use; or
  - the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Bank applies the available expedients for all asset being leased, so decided not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
The Bank shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed .
The Bank elect not to apply the requirements of IFRS 16 Leases to intangible assets.

The Bank as a lessee
The Bank as lessee shall recognise a right-of-use asset and a lease liability at the commencement date of the lease agreement. Right-of-use assets are initially measured at cost. The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee; and
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out restoration
- less any lease incentives received.

After the commencement date, the Bank shall measure the right-of-use asset applying a cost model. The Bank depreciates the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The determination of the useful life of the right-of-use assets are presented similar to owned property, plant, equipment and vehicles. The Bank applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise any impairment loss identified in accordance with the standard.
The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank use the lesse's incremental borrowing rate. Typically the Bank use its own incremental borrowing rate to recognise lease liabilities. At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date);
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;

- payments of contractual penalties for terminating the lease, if the lease period reflects that the Bank used the option of terminating the lease;
- less any lease incentives receivable.

After the commencement date, the Bank shall measure the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Bank shall remeasure the lease liability, if either:
- there is a change in the lease term; or
- there is a change in the assessment of an option to purchase the underlying asset; or
- there is a change in the amounts expected to be payable under a residual value guarantee; or
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

The Bank shall recognise the amount of the remeasurement of the lease payments as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank shall recognise any remaining amount of the remeasurement in profit or loss.

The Bank did not present the right-of-use assets separately in the statement of financial position that does not meet the definition of investment property include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned. The Bank are presented lease liabilities in the statement of financial position as Financial liabilities measured at amortised cost.

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the statement of profit or loss as costs using the straight-line method during the life of the lease.
The Bank does not have right-of-use assets that meet the definition of investment property.
In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid.
The Bank as a lessee has typically property and company car lease agreements.

The Bank as a lessor
The Bank as a lessor shall classify the leases as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
When a contract includes both lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component. The Bank shall recog-

nise lease payments from operating leases as income in profit or loss on a straight-line basis.
The Bank does not have sublease, sale and leaseback transactions. The Bank as a lessor has typically property lease agreements.

3.11. Non-current assets held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. The Bank must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell on initial recognition at the date of classification as held for sale.
An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

3.12. Impairment of non-financial assets

On the balance sheet date the Bank assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Bank estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators.

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.
The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

3.13. Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.14. Deferred taxes

Deferred tax is provided on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. All deferred tax liabilities are recognized. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which it can be utilized. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current taxes liabilities and the deferred tax relate to the same company and the same tax authority.

3.15. Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

a) a contractual obligation:
   i. to deliver cash or another financial asset to another entity; or
   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
b) a contract that will or may be settled in the entity's own equity instruments and is:
   i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
   ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments .

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3.16. Financial liabilities carried at amortised cost

Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortised cost. At initial measurement, they are recognized at fair value plus transaction fees and charges should adjust the carrying amount at initial recognition that is directly attributable to the acquisition or issue of the financial liability.

The Bank has the following financial liabilities to finance its business: loans from the Hungarian state, interbank loans and customer deposits.

The bank shall classify in this category its non-trading bonds and other non-trading financial liabilities (for example accounts payable, bail/cash deposit)

Financial liabilities that are designated at amortised cost are measured subsequently at amortised cost using the effective interest method.

3.17. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.
Financial guarantee contracts are initially recognised in the financial statements as financial liabilities and measured at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expense required to settle any financial obligation arising as a result of the guarantee.

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.
Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment on financial assets not measured at fair value through profit or loss".

3.18. Derecognition of financial instruments

3.18.1. Derecognising of financial asssets

The Bank derecognises a financial asset at fair value on the settlement date. The settlement date is the date that an asset is delivered by the Bank or the asset is terminated or expired.

A financial asset (or a part of a financial asset or a group of financial assets) is derecognised when:

- the rights under contract related to the cash flows from the financial asset cease; or
- the rights under contract related to the cash flows from the financial asset are transferred; or an obligation is undertaken by virtue of a transfer agreement to pay the cash flows from the financial asset to third parties; and
- the Bank has transferred substantially all risks and rewards of the asset, or
- the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has transferred control of the asset.

If the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has retained control of the financial asset, it continues to recognize the transferred asset in proportion to its continuing involvement. The rate of continuing involvement in a transferred asset is the Bank's rate of exposure to the risks associated with changes in the value of the transferred asset.
When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable shall be recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3.18.2. Derecognising of financial liabilities

A financial liability (or a part of a financial liability) is derecognised when it ceases, is executed or matured. Exchange or partial exchange of existing financial liabilities or a part thereof with significantly different terms and conditions or significant modification of its terms and conditions is also considered as cessation of the financial liability and is reported as a new financial liability, taking the relevant part of IFRS 9. The difference between the book value of, and the consideration paid for financial liabilities (or a part thereof) that ceased or have been transferred to third parties is reported in the profit or loss.

3.19. Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities is recognized in other operating expense.

3.20. Employee benefits

3.20.1. Short-term employee benefits
Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

3.20.2. Long-term employee benefits
The Bank has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Bank's policy.
In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

3.21. Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. The repurchased treasury shares are recognised on its nominal value whitin 'Treasury shares' at the date, when a supreme member made a decision on repurchasing. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss. In case of beside the decision of repurchasing, if a supreme member is made a decision at the same time to call back shares, then the Bank is reclassified these shares to the liabilities till the date of the effective cancellation.

3.22. Income and expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.
The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.
Interest income and expenses related to financial instruments are separated by the Bank based on each financial istruments category.
Interest income and interest expenses are accounted on a gross basis by the Bank.

3.23. Fees and commission income and expenses

This group shall include fees and commission income and expenses that are not involved in the amortised cost model. Fees and commisions when they relate and have to be included in the amortised cost modell shall immediatly recognised in profit or loss.
Fees and commision incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.24. Interest subsidy

State interest subsidy
Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond’s interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond’s interest subsidy being based indirectly on the bank’s costs (mortgage bond’s interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy). Both types of subsidies are presented in the Bank’s revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

A new Hungarian legislation became effective from 1 January 2007 under which a 5% withholding tax is to be paid for the interest income on subsidized mortgage loans (only interest income on loans granted directly by the Bank). This additional tax is reported in ‘General and administrative expenses’.

Those loans which connect interest subsidy are measured at amoritised cost, meet the requirement of the SPPI test, and the allowance is calculated according to expected credit loss model.

Mortgage bond interest subsidy
The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

i. Mortgage loans granted by the Bank or with partner banks; and
ii. Independent and separated liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily balance of subsidized loans or mortgage bonds.

Supplementary interest subsidy
The amount of supplementary interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the client. The monthly interest subsidy is one-twelfth of the prevailing subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

3.25. Contingent liabilities / contingent assets

The Bank has recored into off-balance sheet their contingent liabilities, they are not recognised in the financial statements. The contingent liabilities are presented in the Notes. This off-balance sheet items such as guarantees and similar obligations, commitments to extend credit, accepted value of non-balance sheet assets serving as collateral for third party debt.
Contingent liabilities are reported in the balance sheet when it becomes probable.
The Bank has recored into off-balance sheet their contingent assets, they are not recognised in the financial statements. The contingent assets are disclosed in the Notes where an inflow of economic benefits is probable (more than 50%).
This off-balance sheet items such as write-off uncollected debts, received guarantees and bailment.

3.26. Post balance sheet events

Events after the balance sheet date are those events that occur between the balance sheet date and the date when the financial statements are authorised by management (Board of Directors, Supervisory Board) for issue.
The Bank is identified adjusting events after the balance sheet date and non-adjusting events after the balance sheet date. Adjusting events after the balance sheet date are incidences that provide evidence of conditions that existed at the balance sheet date, but information are received after the balance sheet date. The Bank shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Non-adjusting events after the balance sheet date are incidences that are indicative of conditions that arose after the balance sheet date. The Bank shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date, but its expected effects are disclosed in the Notes when material.

3.27. Offsetting

The Bank does not offset financial assets and financial liabilities, incomes and expenses unless required or permitted by a standard or an interpretation. (For example year-end not realized foreign exchange gains and losses, or exceptional financial instruments and cash-flow statements.). Usually the Bank use offsetting if the economic events are the same or similar and gains and losses arising from similar transactions are not material or their separation is not material, when offsetting reflects the economic content better.

3.28. Foreign currency translation

Items included in the financial statements in foreign currencies are translated to the respective functional currencies of the Bank. Transactions in foreign currencies are like transactions that set in foreign currencies or have/had to paid in foreign currencies.

At initial recognition the Bank are translated transactions in foreign currencies to the respective functional currency at the valid NBH rate on the date of the transaction.
At the end of the reporting periods:

- monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate on the balance sheet date;
- non-monetary items reported at amortised cost are converted at the exchange rate on the initial day of the transaction; furthermore
- non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

3.29. Trade date and settlement date accounting

A regular purchase or sale of a financial asset is recognized on the date of delivery. Exemptions are derivatives where recognition of purchase is done on the day when the deal is contracted. The date of settlement is the day on which the Bank takes possession of the asset. A regular sale or purchase transaction is a transaction where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

3.30. Banktax

The Hungarian credit institutions are obliged to pay Bank tax from the year 2010.
From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to Hungarian Accounting Standards at the actual calendar year minus two years. The Bank tax is presented as other operating expense in the Separate Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.
The total annual amount of the banking tax payable in 2018 and 2019 was already booked in one sum at the first of the year.

3.31. Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires using of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions the actual results may differ from those estimates. Estimates are applied in the following areas.

Going concern
The Bank's management assessed the Bank's capabilities to continue operation and found that the Bank has the resources necessary for continued operation in the foreseeable future. Furthermore, the management is not aware of any significant uncertainty that might raise serious doubts in respect of the Bank's ability to exist as a going concern.

Fair value of financial instruments
In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 26)

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 3.14)

Loan impairment test and its result
The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.
For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets
The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.
When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.
Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

3.32. Reclassification and error

After the balance sheet date of the consolidated financial statements of 2018 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

3.33. Changes in the legal and regulatory environment and its effect on the separate financial statements

With its 20/2015. (VI.29.) regulation, the Hungarian National Bank increased the minimum level of the Mortgage Financing Indicator from 0.20 to 0.25, and also started a mortgage bond purchase program, which lead to the raising of the refinancing portfolio of the Mortgage Bank.

3.34. Change in estimates

There are not any significant areas, where there is any material change in estimates.

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2019	2018
Interest income		
Financial assets held for trading	630	1,140
Financial assets at fair value through other comprehensive income	547	766
Financial assets at amortised cost	7,963	9,176
Derivatives – Hedge accounting, interest rate risk	1,119	-
Interest income on financial liabilities	2	5
Total	**10,261**	**11,087**

	2019	2018
Interest expense		
Financial liabilities held for trading	352	715
Financial liabilities designated at fair value through profit or loss	271	243
Financial liabilities measured at amortised cost	6,699	7,427
Derivatives – Hedge accounting, interest rate risk	375	-
Other liabilities	1	-
Total	**7,698**	**8,385**

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
Fee and commission income		
Mortgage loans of the Bank	146	157
Handling commission	34	123
Real estate appraisal fee	299	195
Refinanced mortgage loans	112	133
Other	-	2
Total	**591**	**610**

	2019	2018
Fee and commission expense		
Fees and commissions to banks and to clearing house	8	7
Agency fee expense	13	64
Real estate appraisal fee	293	262
Treasury services	122	181
Other*	0	935
Total	**436**	**1,449**

**in 2018 the other fee and commission expense was connected the agent fee from Takarek Commercial Bank*

6. LOSS/PROFIT FROM FOREIGN EXCHANGE TRANSACTIONS

	2019	2018
FX transactions realized gains	-	1
FX transactions non-realized (loss)/gains	(10)	3
(Loss)/Profit from foreign exchange transactions	**(10)**	**4**

All figures in tables are in HUF million except otherwise noted

7. GAINS ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
Financial assets at fair value through other comprehensive income	588	-
Financial assets at amortised cost	(173)	1,284
Financial liabilities at amortised cost	8	1,718
Total	**423**	**3,002**

8. GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2019	2018
IRS deals*	3,135	976
CCIRS deals**	(9)	708
MIRS deals***	(803)	-
Other	(4)	(158)
Total	**2,319**	**1,526**

*IRS= Interest Rate Swap
**CCIRS=Cross Currency Interest Rate Swap
***MIRS=Monetary Interest Rate Swap

9. OTHER OPERATING INCOME AND EXPENSE

	2019	2018
Gains or (losses) on derecognition of non-financial assets, net		
Sales of inventory	3	(28)
Sales of property, plant, equipments	16	(4)
Invoiced expenses and services	8	10
Other	14	44
Total	**41**	**22**

	2019	2018
Other operating income		
Reversal of provision	49	-
Rental income on property	2	-
Invoiced expenses and services	718	965
Tax refunds for previous years	-	105
Other income	18	8
Total	**787**	**1,078**

All figures in tables are in HUF million except otherwise noted

	2019	2018
Other operating expense		
Donation	1	-
Loss on damages compensations paid	2	12
Other expense	5	-
Total	**8**	**12**

10. GENERAL GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Staff costs	315	418
Marketing and advertising	127	2
General and administrative costs	773	1,015
Rental fee	21	15
Depreciation	120	121
Amortisation	36	42
Consultancy fees	285	764
Maintenance costs	836	851
Banking tax	76	156
Other taxes	192	182
Insurance fees	8	10
Database system usage	29	31
SZHISZ* fee, SZHISZ Capital Fund and Resolution and Compensation Fund fees	394	286
Other	125	101
Total	**3,337**	**3,994**

**SZHISZ=Integration Organisation of Cooperative Credit Institution*

11. STAFF COSTS

	2019	2018
Wages and salaries	255	316
Social security contribution	50	75
Other personnel related payments	10	27
Total	**315**	**418**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The full time head count of the Bank at the end of the reporting period was 14 (2018: 36).

All figures in tables are in HUF million except otherwise noted

12. INCOME TAX

	31 December 2019	31 December 2018
Current income tax	**0**	**0**
Corporate income tax	0	0
Deferred tax expense	**(306)**	**(241)**
Total	**(306)**	**(241)**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
The Act LXXXI of 1996 on Corporate Tax Act applied 9% current income tax rate. Based on this information the Bank calculated the deferred tax with the 9% tax rate in 2019 and in 2018.

Based on the business plans of the Management the profit of the Bank in the foreseeable future will cover the accumulated deferred tax assets from tax loss carry forward. Based on the assumption the recognition of the deferred tax benefits is reasonable.

	31 December 2019	31 December 2018
Profit and loss before tax	*2 446*	*4 921*
Calculated corporate income tax (9%)	(220)	(443)
Items modifying the Hungarian tax base	279	443
Unremunerative deffered tax because of change in business	(369)	(80)
IFRS addoption	0	(161)
Effect of other modifications	4	-
Total	**(306)**	**(241)**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

	31 December 2019				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Items modifying corporate tax base	-	(24)	24	(378)	-
Effect of corporate tax of IFRS addoption	-	117	(117)	58	-
Effect of local business tax of IFRS addop-tion	-	-	-	14	-
Net deferred tax position	**-**	**93**	**(93)**	**(306)**	**-**

	31 December 2018				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Items modifying corporate tax base	393	-	393	(52)	10
Effect of corporate tax of IFRS addoption	(175)	-	(175)	(175)	-
Effect of local business tax of IFRS addop-tion	-	14	(14)	(14)	-
Net deferred tax position	**218**	**14**	**204**	**(241)**	**10**

The data of the table at 31 December 2019 shows deferred tax position one tax authority against, besides the table at 31 December 2018 shows deffered tax position on a net basis.

All figures in tables are in HUF million except otherwise noted

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2019	31 December 2018
Items that will not be reclassified to profit or loss	**9**	**0**
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
including: decrease/derecognition from equity instruments measured at fair value	-	-
Income tax relating to items that will not be reclassified	9	-
Items that may be reclassified to profit or loss	**709**	**(106)**
Hedging instruments	(186)	-
Debt instruments at fair value through other comprehensive income	895	(116)
Income tax relating to items that may be reclassified to profit or (-) loss	-	10
Total comprehensive income	**718**	**(106)**

14. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

	31 December 2019	31 December 2018	1 January 2018
Cash on hand	-	-	-
Cash balances at central banks	915	324	347
Other demand deposits	155	990	302
Total	**1,070**	**1,314**	**649**

All figures in tables are in HUF million except otherwise noted

15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2019	31 December 2018	1 January 2018
Financial assets held for trading			
IRS deals	97	2,158	43
CCIRS deals	22	-	-
MIRS deals	56	718	-
Total	**175**	**2,876**	**43**

	31 December 2019	31 December 2018	1 January 2018
Financial liabilities held for trading			
IRS deals	39	798	-
MIRS deals	97	33	-
Total	**136**	**831**	**-**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018	1 January 2018
Equity instruments	10	10	10
Debt securities	43,724	39,295	40,758
from this: Discount government bonds	*-*	*12,410*	*16,822*
from this: Government bonds	*30,899*	*19,539*	*12,080*
from this: Credit intstitution bonds	*12,825*	*2,817*	*3,056*
from this: Mortgage bonds	*-*	*4,529*	*8,800*
Total	**43,734**	**39,305**	**40,768**

All figures in tables are in HUF million except otherwise noted

The Equity instruments contain securities acquired for non-trading purposes by the Bank that its ownership ratio is under 20%. The table below presents the fair value of this shares as at 31 December 2019:

Shares	Fair Value at 31 December 2019
MTB Bank of Hungarian Savings Cooperatives Co. Ltd.	-
Organisation of Cooperative Credit Institution	10
Takarék Egyesült Szövetkezet	-
Total	**10**

The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Debt securities	999	-	-
Loans gross	275,801	246,407	220,223
from this: Due from banks	*216,985*	*169,286*	*132,190*
from this: Retail	*58,807*	*70,049*	*78,953*
from this: Corporate	*9*	*7,072*	*9,080*
Impairment on loans	(988)	(3,083)	(4,604)
Advances gross	1,315	191	1,599
Impairment on advances	(12)	(3)	-
Deposit from central bank and other banks gross	17,411	12,500	12,003
Impairment on deposit from central bank and other banks gross	-	-	-
Total	**294,526**	**256,012**	**229,221**

All figures in tables are in HUF million except otherwise noted

18. SUBSIDIARIES

Equity interests of the Bank in subsidiaries:

	31 December 2019		31 December 2018		1 January 2018	
	Gross book value	Held %	Gross book value	Held %	Gross book value	Held %
Takarék Commercial Bank Ltd.	-	-	35,282	51%	35,282	51%
Subsidiaries gross	**-**		**35,282**		**35,282**	
Impairment	-		3,304		3,304	
Total	**-**		**31,978**		**31,978**	

The historial cost of the Bank's subsidiary as at 1 January 2018 was million HUF 35,282, for which impairment losses of HUF 3,304 million was recognized. During the reporting period, the subsidiary was sold at book value.

19. TANGIBLE ASSETS

31 December 2019	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	358	463	821
Increase	-	-	-
Decrease	-	(43)	(43)
Closing balance	358	420	778
Depreciation			
Opening balance	295	330	625
Annual depreciation	53	23	76
Decrease	-	(24)	(24)
Closing balance	348	329	677
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**10**	**91**	**101**

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

Tangible assets of the separate financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 56 million as at 31 December 2019. (Note 21)

All figures in tables are in HUF million except otherwise noted

31 December 2018	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	357	545	902
Increase	1	-	1
Decrease	-	(82)	(82)
Closing balance	358	463	821
Depreciation			
Opening balance	252	333	585
Annual depreciation	43	32	75
Decrease	-	(35)	(35)
Closing balance	295	330	625
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**63**	**133**	**196**

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

Tangible assets of the separate financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 53 million as at 31 December 2018. (Note 21)

All figures in tables are in HUF million except otherwise noted

20. INTANGIBLE ASSETS

31 December 2019	Software	Other intangible assets	Total
Gross value			
Opening balance	1,242	64	1,306
Increase	-	-	0
Decrease	(4)	-	(4)
Closing balance	**1,238**	**64**	**1,302**
Depreciation			
Opening balance	859	64	923
Annual depreciation	36	-	36
Decrease	(2)	-	(2)
Closing balance	**893**	**64**	**1,061**
Impairment			
Opening balance	-	-	-
Increase	104	-	104
Decrease	-	-	-
Closing balance	104	-	104
Net value	**241**	**-**	**241**

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2019.

The Bank estimates the recoverable amount of the intangible asset and the impairment for the year is related to IT software where the recoverable amount is lower than the net asset value The impairment is presented on the “Reversal of impairment on non-financial assets” line in the Separated Statement of Profit or Loss.

All figures in tables are in HUF million except otherwise noted

31 December 2018	Software	Other intangible assets	Total
Gross value			
Opening balance	1 242	80	1 322
Increase	-	-	-
Decrease	-	(16)	(16)
Closing balance	**1 242**	**64**	**1 306**
Depreciation			
Opening balance	818	75	893
Annual depreciation	41	1	42
Decrease	-	(12)	(12)
Closing balance	**859**	**64**	**923**
Impairment			
Opening balance	-	-	-
Gross value	-	-	-
Opening balance	-	-	-
Increase	-	-	-
Net value	**383**	**-**	**383**

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2018.

The Bank estimates the recoverable amount of the intangible asset and it was not necessary to recognises impairment on the asset.

21. IFRS 16 LEASES

Right-of-use asset

	31 December 2019	31 December 2018	1 January 2018
Owned property, plant and equipment	101	196	317
Right-of-use assets, expect investment properties	56	53	99
Total property, plant and equipment	**157**	**249**	**416**

All figures in tables are in HUF million except otherwise noted

Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2019	31 December 2018	1 January 2018
Short term	21	46	48
Long term	49	7	51
Total lease liabilities	**70**	**53**	**99**

Maturity analysis - undiscounted contractual payments

	31 December 2019	31 December 2018	1 January 2018
Up to 1 year	21	46	48
1 year to 5 years	49	7	51
Over 5 years	-	-	-
Total undiscounted lease liabilities	**70**	**53**	**99**

Right-of-use asset

	Property	Company Car	Total
Opening balane at 1 January 2018	**84**	**15**	**99**
Inrease	-	-	-
Amortization for the year	(42)	(4)	(46)
Decrease	-	-	-
Balance at 31 Decemebr 2018	**42**	**11**	**53**
Inrease	68	-	68
Amortization for the year	(54)	-	(54)
Decrease	-	(11)	(11)
Balance at 31 Decemebr 2019	**56**	**0**	**56**

Total cash outflow for leases

	31 December 2019	31 December 2018
Total cash outflow for leases	(42)	(46)

All figures in tables are in HUF million except otherwise noted

Items related to lease liabilities presented in profit or loss

	31 December 2019	31 December 2018
Interest expense on the lease liabilities	(1)	(1)
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	-
Income from subleasing right-of-use assets	-	-
Expenses related to short-term leases	-	-
Expenses related to leases of low-value assets, expect the expense relating to short-term leases of low-value assets	-	-
Gains or losses arising from sale and leaseback transactions	-	-
	(1)	**(1)**

Items presented in the statement of cash flows

	31 December 2019	31 December 2018
Operating cash flow		
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	-	-
Cash payments for the principal portion of the lease liability	(42)	(46)

22. OTHER ASSETS

	31 December 2019	31 December 2018	1 January 2018
Prepaid expenses	222	1,041	232
Printed matter, office supplies	-	5	25
Settlements with the Hungarian State	1	1	1
Repossessed collateral	2	13	106
Accounts receivable	-	80	81
Reclaimable taxes	75	264	-
Securities technical account	-	-	720
Others	18	48	170
Total	**318**	**1,452**	**1,335**

All figures in tables are in HUF million except otherwise noted

23. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position.
Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than attributable to change in market conditions, that give right to market risk represent credit risk.

	31 December 2019		31 December 2018		1 January 2018	
	Fair value	Face value	Fair value	Face value	Fair value	Face value
Listed mortgage bonds						
Fixed interest	6,552	5,768	7,437	6,422	7,386	6,203
Floating interest	-	-	-	-	-	-
Total mortgage bonds	**6,552**	**5,768**	**7,437**	**6,422**	**7,386**	**6,203**
Total Financial liabilities designated at fair value through profit or loss	**6,552**	**5,768**	**7,437**	**6,422**	**7,386**	**6,203**

The total credit risk which is due to financial liabilities through profit or loss was HUF 197.6 million as of 31 December 2019 (31 December 2018: HUF 80.9 million).

24. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Deposits	-	-	-
Loans received	3,710	14,088	46,697
Debt securities issued	265,929	247,797	189,395
Other financial liabilities	256	508	2,737
Total	**269,895**	**262,393**	**238,829**

All figures in tables are in HUF million except otherwise noted

24.1. Issued debt securities

The Bank reports mortgage bonds and bonds that are recognised at amortised cost on ‘Issued debt securities’ line in the statement of financial position:

	31 December 2019		31 December 2018		1 January 2018	
	Net book value	Face value	Net book value	Face value	Net book value	Face value
Non-listed mortgage bonds						
Fixed interest	3,972	3,824	17,515	16,449	17,553	16,460
Floating interest	-	-	-	-	-	-
Listed mortgage bonds						
Fixed interest	218,819	214,137	192,957	189,500	70,713	63,740
Floating interest	43,138	43,017	10,167	10,072	90,214	90,301
Total mortgage bonds	**265,929**	**260,978**	**220,639**	**216,021**	**178,480**	**170,501**
Non-listed bonds						
Fixed interest	-	-	-	-	-	-
Floating interest	-	-	-	-	-	-
Subordinated bonds	-	-	-	-	-	-
Listed bonds						
Fixed interest	-	-	6,976	6,736	10,415	9,979
Floating interest	-	-	20,182	20,000	500	500
Total bonds	**-**	**-**	**27,158**	**26,736**	**10,915**	**10,479**
Total issued securities	**265,929**	**260,978**	**247,797**	**242,756**	**189,395**	**180,980**

All figures in tables are in HUF million except otherwise noted

Mortgage bonds

Mortgage bonds are transferable registered or bearer securities and, pursuant to Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds, can be issued only by mortgage banks. Prior to their issue, a property supervisor reviews if the Bank has adequate collateral for the issue. These collaterals may be (i) ordinary collaterals such as the principal and interest receivable (including interest subsidies) from mortgage loans provided in accordance with the standard collateral requirements, the repurchase price of an independent lien and the related refinancing interest, and (ii) additional collateral such as, typically, government bonds and related interest and any principal and interest receivable guaranteed by the government. According to the Act, if the amount of principal receivable exceeds 60% of the collateral value of related property offered, only the principal receivable amounting to 60% of the collateral value and the proportionate amount of interest can be considered as an ordinary collateral.

The Act governs the proportionate between ordinary and additional collaterals: at least 80% of all collateral must be ordinary collateral. In addition to the statutory requirements, the Bank that the following limits also need to be met:

i. Cover for the nominal value: the nominal value of the ordinary collateral (the underlying principal excluding the provision for any impairment loss and interest) should exceed 100% of the not yet repaid nominal value of the mortgage bonds outstanding,
ii. If point (i) is not met, the Bank has to acquire additional collateral to the extent that the sum of the nominal values of the ordinary and additional collaterals always exceed 100% of the not yet repaid minimal value of the mortgage bonds outstanding,
iii. Cover for the interest: the interest on the nominal value of the ordinary and supplementary collaterals should exceed 100% of the interest on the not yet repaid nominal value of the mortgage bonds outstanding.

In addition to assessment of the nominal value of the cover for mortgage bonds the Mortgage Loans Act also provides for assessment of mortgage bonds cover at present value. The fair value of collateral exceeded the present value of mortgage bonds outstanding not yet repaid throughout the period.

Bonds

From 2007 the Group launched bonds for the first time in addition to mortgage bonds.

Bonds are registered dematerialized securities. Pursuant to the provisions of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December) the Group generates a document containing the data of the bond series. The document, which itself is not a security, is then deposited with Central Clearing House and Depository Ltd. (KELER).

Bonds incorporate the Group's direct, unconditional, non-subordinate unsecured liabilities. Bonds are equal in rank to the Group's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

25. PROVISIONS

Provisions are set up mainly for current and contractual obligation. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense or in other operating expense.

2019	*Provision for loan commitments and guarantees*	Contractual obligation	Other provision	Provision for amounts relating to accrued vacation pay	Total
Opening balance at 1 January 2019	**11**	**2**	**6**	**553**	**572**
Increase in the period	2	-	9	-	11
Utilization in the period	(10)	(2)	(6)	(56)	(74)
Closing balance at 31 December 2019	**3**	**-**	**9**	**497**	**509**

Individual Investors Interest Association (TEBÉSZ) filed a lawsuit in the Capital Court for the annulment of the Company's resolutions number; 4/2019 (08.27.), 6/2019 (08.27.) and 7/2019 (08.27.) taken on the General Meeting of the Company held on August 27, 2019, and also asked the suspension of the enforcement of the resolutions. The notice of filing has been delivered on 10 October, 2019.
The Capital Court was rejected the application of the demandant on the suspension of the enforcement of the resolutions. The litigation is currently still in progress. The opinion of the Company is that the convocation and enforcement, such as the decisions of the General Meeting have been taken in accordance with the relevant legal provisions.
The National Bank of Hungary have given a permission on the enforcement of the transaction and have given the permission on the election of the new member of the Board of Directors. So both of the resolution sued, has already been implemented. The Company have informed the Court about these facts.
However, in the unexpected event that the Company were to be unsuccessful in the legal proceeding, even the not favorable judgment would have not cause any financial effects on the Company, because the lawsuit asked the annulment of the resolutions, and the Company still have the possibility to make the same resolutions again in the next General Meeting if it is necessary. In view of the above mentioned, provison was not set up..

2018	*Provision for loan commitments and guarantees*	*Contractual obligation*	*Other provision*	*Provision for amounts relating to accrued vacation pay*	*Total*
Opening balance at 1 January 2018	**9**	**12**	**-**	**1,185**	**1,206**
Increase in the period	2	2	6	-	10
Utilization in the period	-	(12)	-	(632)	(644)
Closing balance at 31 December 2018	**11**	**2**	**6**	**553**	**572**

All figures in tables are in HUF million except otherwise noted

26. OTHER LIABILITIES

	31 December 2019	31 December 2018	1 January 2018
Taxes payable	52	49	6
Creditors	-	-	-
Accrued expenses	327	280	154
Customer loan prepayments	-	-	-
Other	2	26	81
Total	**381**	**355**	**241**

27. SHARE CAPITAL

27.1. Ownership structure

In 2019. there was major/significant changes in the share capital and ownership structure of the Bank. The MTB Bank of Hungarian Savings Cooperatives Co. Ltd. bought a big part of the Bank shares became the only directive owner.

The table shows the ownership structure of the owners from different sectors as follows:

	31 December 2019		31 December 2018	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52.60	57,069,304	50.45	54,735,748
Foreign institutional investors	0.02	20,576	0.11	126,899
Domestic private investors	3.47	3,759,643	5.30	5,750,222
Foreign private investors	0.06	60,400	0.05	39,388
Employees, directors and senior management	0.00	-	0.01	11,517
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	4.46	4,832,225	4.46	4,832,225
Other	0.00	4,261	0.23	250,410
Subtotal	*60.84*	*66,000,010*	*60.83*	*66,000,010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
Subtotal	*13.05*	*14,163,430*	*13.05*	*14,163,430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Subtotal	*26.11*	*2,832,686*	*26.11*	*2,832,686*
Total	**100.00**	**82,996,126**	**100.00**	**82,996,126**

All figures in tables are in HUF million except otherwise noted

27.2. Owners with more than 5% ownership relating to listed series

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	50,806,758	76.98%
Hungarian National Asset Management Inc.	no	4,832,225	7.32%
Takarék Limited Investment Fund	no	3,808,180	5.77%
Total		**59,447,163**	**90.07%**

27.3. Owners with more than 5% ownership relating to total equity

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	67,802,874	86.00%
Hungarian National Asset Management Inc.	no	4,832,225	4.45%
Total		**72,635,099**	**90.45%**

27.4. Treasury shares purchased

	31 December 2019	31 December 2018	1 January 2018
Opening balance	207	207	207
Purchase	-	-	-
Closing balance	**207**	**207**	**207**

During the reporting period there were no changes in the cumulative balance of Treasury share purchased.

27.5. Other reserve

	31 December 2019	31 December 2018	1 January 2018
General reserve	927	712	460
Closing balance	**927**	**712**	**460**

27.5.1. General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 927 million as at 31 December 2019 (General reserve was HUF 712 million as at 31 December 2018).

All figures in tables are in HUF million except otherwise noted

27.6. Cumulated other comprehensive income

	2019	2018
Opening balance	274	380
Cumulated other comprehensive income	**718**	**(106)**
Items that will not be reclassified to profit or loss	**9**	**-**
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Income tax relating to items that will not be reclassified	9	-
Items that may be reclassified to profit or loss	**709**	**(106)**
Hedging instruments	(186)	-
Debt instruments at fair value through other comprehensive income	895	(116)
Income tax relating to items that may be reclassified to profit or loss	-	10
Closing balance	**992**	**274**

28. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the separate statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.
Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2019	31 December 2018	1 January 2018
Loan commitments	18,094	15,700	9,812
Given bail	110	597	597
Total	**18,204**	**16,297**	**10,409**

All figures in tables are in HUF million except otherwise noted

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments stated at amortized cost: due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values. These include cash and due from banks and with the National Bank of Hungary as well as deposits.

Securities at fair value through other comprehensive income: Securities at fair value through other comprehensive income held for liquidity purposes are marked to market. For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

29.1. Loans and advances

The Bank calculates the fair value of loans and advances to customers and refinanced loans at amortized cost on an individual basis.
The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow.
- In case of loans where amortized cost is calculated with simplified approach no FV correction is applied.

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank’s evaluation, which contains the following components:

- Relevant market yield curve
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the invesment timeline and the type of investment (for example in measuring the fair value of short term financial investment the current market sentiment to be better reflected a some valuation technique than others);
- an entity’s life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity’s business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

	31 December 2019		31 December 2018		1 January 2018	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
Loans and advances	294,526	300,934	256,012	261,582	229,221	229,221

29.2. Fair value of other items in the statement of financial position

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

29.3. Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

	Fair value		Notional amount	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
IRS	97	2,158	4,841	52,140
MIRS	56	718	8,111	15,775
CCIRS	22	-	2,342	-
Total trading derivatives	**175**	**2,876**	**15,294**	**67,915**
Hedge deals	2,676	-	49,650	-
Total derivative financial assets	**2,851**	**2,876**	**64,944**	**67,915**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
IRS	39	798	7,960	24,689
MIRS	97	33	4,992	1,976
Total trading derivatives	**136**	**831**	**12,952**	**26,665**
Hedge deals	288	0	4,799	-
Total derivative financial liabilities	**424**	**831**	**17,751**	**26,665**

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the derivatives are broken down to elementary cash flows and the present value is calculated.
The present value of the future cash flows of fixed interest rate deals is calculated by the Bank using the zero-coupon swap yield curve corresponding to the appropriate currency. The fair value of swap deals is the difference of the present value of the two series of cash flows not yet due (incoming and outgoing).

In the case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal payments are discounted to present value using the multi-level yield curve (forward yield curve, and discounting curve). The fair value of the deal is the aggregate of the present values.

The risk premium is significant and permanent, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

For the Bank's existing derivative contracts designated as fair value hedges, the purpose of the transaction is to exchange fixed interest rate contracts for floating rate transactions and to hedge the resulting fair value risk. The parameters of the hedging instrument (maturity, amount, currency, interest rate, etc.) and thus its cash flow are the same as the parameters of the hedged security and the cash flow of capital and interest.

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly. The Bank introduced hedge accounting in the second quarter of 2019 for swap transactions in the individual IFRS financial statements of Takarék Mortgage Bank. The effect of this is shown in the table on December 31, 2019.

29.4. Fair value hedge transactions

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Losses on the hedging instrument	Gains on the hedged items
MIRS	Issued mortgage bonds	2,676	(64,353)	301	(304)
MIRS	Government bonds	(288)	5,832	(208)	186

All figures in tables are in HUF million except otherwise noted

29.5. Fair value of financial instruments carried at fair value

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank calculates the fair value of non-trading financial assets mandatorily at fair value through profit or loss on an individual basis.
The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow
- In case of loans where amortized cost is calculated with simplified approach no FV correction is applied

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation, which contains the following components:

- Relevant market yield curve
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the invesment timeline and the type of investment (for example in measuring the fair value of short term financial investment the current mar-ket sentiment to be better reflected a some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valua-tion models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

The following table shows an analysis of financial instruments carried at fair value.

	31 December 2019		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	175	-
Securities at fair value through other comprehensive income	43,734	-	-
Derivatives – Hedge accounting	-	2,676	-
Total assets carried at fair value	**43,734**	**2,851**	**-**

	31 December 2019		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	136	-
Financial liabilities designated at fair value through profit or loss	-	6,552	-
Derivatives – Hedge accounting	-	288	-
Total assets carried at fair value	**-**	**6,976**	**-**

	31 December 2018		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	2 876	-
Securities at fair value through other comprehensive income	39,305	-	-
Derivatives – Hedge accounting	-	-	-
Total assets carried at fair value	**39,305**	**2,876**	**-**

	31 December 2018		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	831	-
Financial liabilities designated at fair value through profit or loss	-	7,437	-
Derivatives – Hedge accounting	-	-	-
Total assets carried at fair value	**-**	**8,268**	**-**

All figures in tables are in HUF million except otherwise noted

30. RISK MANAGEMENT

30.1. Overview

Takarék Mortgage Bank Plc. is member of Integration Organisation of Cooperative Credit Institution (SZHISZ). Due to the membership of Integration the scope of the risk management policies of the Integration, as well as risk strategy have been extended to the bank.

Based on the Section 5 of Article 1 of the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv) the Integration Organisation and its members are required to accept joint and several responsibility for each other's obligations according to the Act V of 2013 on the Civil Code (Civil Code). The joint and several responsibility system cover also all the receivables to Integration Organisation and its members, independently the date of its occurrence.

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to Credit Institution Act.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of cooperative financial istitutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

Risk Strategy – approved by the Board of Directors of MTB Ltd. is mandatory for credit institutions and companies under consolidated supervision led by MTB Ltd. – cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and risk capacity, risk structure, risk management, the structure and organization of risk management.

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

The risk capacity of Takarék Mortgage Bank Plc. should be in line with the financial resources that are available to cover potential losses. In order to this the current and future economic, capital requirements and the capital requirements under Pillar 1 for quantifiable risk types are calculated.

Prudent risk taking is a fundamental value for the Bank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

The Risk Strategy is based on the following main pillars:

- in risk management application of the best approaches and methods applied in market practice
- identification of risk and yield profile of segments, products and risk positions and continuous monitoring
- consideration of the risks in business decisions
- separation the risk management organisation from the business division
- the importance of all stages of the risk management process
- the risk management process is the part of the Bank Group's management system, its aspects are integrated into the strategic and annual planning.

The exposure is basically credit-, liquidity-, market- and operational risks.

30.2. Risk management structure

Board of Directors

The Boards of Directors of the banks are responsible for the Takarék Mortgage Bank's and Takarék Commercial Bank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership the Banks follow the risk strategy, apply the uniform risk management policies of the Integration and report about their risks to the central bodies of the Integration – to the MTB Magyar Takarékszövetkezeti Bank Zrt., and the Integration Organisation of Cooperative Credit Institution (SZHISZ).

Based on regular risk exposure reports, the Boards of Directors evaluate the risk management activities and the level of exposure of the banks. If the level of exposure undertaken by the banks does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

The Supervisory Boards of the banks are responsible for monitoring the overall risk and risk management processes within the Bank. In this context they supervise and monitor the suitability of methods and systems applied by the Banks in order to ensure compliance with the statutory capital adequacy requirements.

Refinancing Lending Committee

The purpose of the operation of the Refinancing Lending Committee is to make the necessary decisions to establish certain terms and conditions of the Bank's refinancing business that will be concluded with a particular partner bank (framework agreement).

Assets and Liabilities Committe

The Assets and Liabilities Committee is exercised its authority on an individual level referring to the Bank.

The Assets and Liabilities Committee is exercised its authority relating to the asset and liability management, liquidity risk management, market risk management, issue and pricing of mortgage bonds and bonds, and categories defined in the internal policies for the Committee.

Risk Control Board

The Risk Control Board is exercised its authority on an individual level referring to the Bank.

The Risk Control Board is exercised its authority relating to operational risk, risk policy / risk strategy, capital management, and categories defined in the internal policies for the Board.

Department of Risk Management is responsible for determining the requirements necessary for the prudent operation. They develop the risk guidelines and manage credit, liquidity, market and operational risk.

Internal Audit

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank's all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

Risk management processes are audited regularly by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Supervisory Boards and the Managements of the banks.

Risk evaluation and reporting system

The Bank is measured the risk exposure in accordance with the methods defined in laws and integration policies.

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Bank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure.

The Boards of Directors and The Supervisory Board evaluate the reports on risks on a quarterly basis.

30.3. Risk mitigation

Interest rate and exchange rate risks

To minimize the risk of interest- and foreign exchange rate risks the Banks manage their asset and liability structure.

Credit risk

Credit risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation to the Bank.

The Bank is suspended the new loan placement activity based on strategy decision during 2018, keep handling the existing loan portfolio. Therethrough the Bank monitors client and partner rating on an ongoing basis.

The Bank rates the creditworthiness of their clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitors client and partner rating on an ongoing basis.

Risk taking to retail clients is based on the use of standardized loan schemes and lending processes, resulting in a portfolio characterized by high number of customers, small amounts of individual loans and diversification.

Corporate lending is based on individual assessment and the continuous monitoring is in focus.

The Bank applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

30.4. Credit risk

30.4.1. Credit rating

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the European Union (EU).

Impairment

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortized cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to as “Financial Assets”). This contrasts to the IAS 39 impairment model which was not applicable to loan commitments and financial guarantee contracts, as these were instead covered by International Accounting Standard 37: “Provisions, Contingent Liabilities and Contingent Assets” (IAS 37).

Under IFRS 9, the Bank first evaluates individually the Financial Assets whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three stage approach to impairment for Financial Assets that are performing at the date of origination or purchase. This approach is summarised as follows.

Stage 1:
The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.
Stage 2:
The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.
Stage 3:
The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Bank definition of default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios as described below.

Financial Assets that are credit impaired upon initial recognition are categorised purchased or originated credit-impaired (POCI) with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these (POCI) assets is discussed further below.

Notes to the Separate Financial Statements

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Bank historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e., Stage 1 to Stage 2). The Bank's framework aligns with the internal Credit Risk Management process and covers rating related and process related indicators which are discussed further in the section below on Model Descriptions.

Credit Impaired Financial Assets in Stage 3

The Bank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.
The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The Bank considers the obligor is unlikely to pay its credit obligations. Determination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that are qualitative indicators of credit impairment; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.

Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

A Financial Asset can be classified as in default but without an allowance for credit losses (i.e., no impairment loss is expected). This may be due to the value of collateral. The Bank's ECL calculation is conducted on a quarterly basis.

Default

The bank uses the CRR definition of default as a primary indicator of loss events. Default, as a loss event occure when:

- the obligiation is more then 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligation in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in cotract terms, for the clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

Purchased or Originated Credit Impaired Financial Assets

A Financial Asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition (i.e., rated in default by Credit Risk Management). Such defaulted Financial Assets are termed POCI Financial Assets. Typically the purchase price or fair value at origination embeds expectations of lifetime expected credit losses and therefore no separate credit loss allowance is recognised on initial recognition. Subsequently, POCI Financial Assets are measured to reflect lifetime expected credit losses, and all subsequent changes in lifetime expected credit losses, whether positive or negative, are recognised in the income statement as a component of the provision for credit losses.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirely or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in Provision for impairment losses in the consolidated statement of Profit or Loss.

30.4.2. Model Descriptions - Expected Credit Loss

Stage determination

At initial recognition, Financial Assets which are not POCI are reflected in Stage 1. If there is a significant increase in credit risk, the Financial Asset is transferred to Stage 2. Significant increase in credit risk is determined by using rating-related and process- related indicators as discussed below. In contrast, the assignment of a financial instrument to Stage 3 is based on the status of the obligor being in default.

Rating-Related Indicators: Based on a dynamic change in counterparty PDs that is linked to all transactions with the counter- party, the Bank compares lifetime PD at the reporting date, with expectations at the date of initial recognition. Based on historically observed migration behaviour and available forward-looking information, an expected forward rating distribution is obtained. A quantile of this distribution, which is defined for each counterparty class, is chosen as the threshold. If for the remaining lifetime the PD of a transaction given current expectations exceeds the PD of the relevant threshold rating, the Financial Asset is considered as significantly deteriorated. The thresholds used to determine Stage 2 indicators are determined using expert judgment and validated annually.

Process-Related Indicators: Process-related indicators are derived via usage of existing risk management indicators, which allow the Bank to identify whether the credit risk of Financial Assets has significantly increased. These include obligors being added mandatorily to a credit watchlist, being mandatorily transferred to workout status, payments being 30 days or more overdue or in forbearance.

On an ongoing basis, as long as the condition for one or more of the indicators is fulfilled and the Financial Asset is not recognized as defaulted, the asset will remain in Stage 2. If none of the indicator conditions is any longer fulfilled and the Financial Asset is not defaulted, the asset transfers back to Stage 1. In case of a default, the Financial Asset is allocated to Stage 3.

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.
Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk. The expected lifetime is estimated by taking into consideration historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. Where such facilities are subject to an individual review by Credit Risk Management, the lifetime for calculating expected credit losses.

Forward-Looking Information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into allowance for credit losses, the Group uses two key elements: As its base scenario, the Bank uses the macroeconomic forecasts provided by Hunarian National Bank. These forecasts cover a number of macroeconomic variables (e.g., GDP, unemployment rates) and reflect Regulator search's view as to the most likely development of those variables, typically over a two year period and updated quarterly.

This base scenario is then translated into a multiple scenario analysis by leveraging the stress test environment. This environment generates the impact of a multitude of economic scenarios and is used as basis for deriving multi-year PD curves for different rating and counterparty classes, which are applied in the calculation of expected credit losses and in the identification of significant deterioration in credit quality of Financial Assets.

The general use of forward-looking information, including macro-economic factors, as well as adjustments taking into account extraordinary factors, are monitored by the Bank's Risk Management.

Assumptions and the Estimation Techniques

IFRS 9 does not distinguish between individually significant or not individually significant Financial Assets and as such the Bank calculates expected credit losses for each Financial Asset individually. Similarly, the determination of the need to transfer between stages is made on an individual asset basis.

The Bank uses three main components to measure ECL. These are PD, Loss Given Default (LGD) and Exposure at Default (EAD).

Incorporating forecasts of future economic conditions into the measurement of expected credit losses influences the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect economic forecasts.

The expected credit loss calculation for stage 3 distinguishes between transactions in homogeneous and non-homogenous portfolios, and purchased or originated credit-impaired transactions. For transactions that are in Stage 3 and in a homogeneous portfolio, a similar approach as for Stage 1 and 2 transactions is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal to 100 %.

Below the estimation techniques for the input factors are described in more detail.

The one-year PD for counterparties is derived from our internal PD model. The Bank assigns a PD to each relevant counterparty credit exposure for our exposure.

The counterparty ratings assigned are derived based on internally developed rating models which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a specific set of criteria as given for a certain customer. The set of criteria is generated from information sets relevant for the respective customer segments including general customer behaviour, financial and external data. The methods in use range from statistical scoring models to expert-based models taking into account the relevant available quantitative and qualitative information. Expert-based models are usually applied for counterparties in the exposure classes “Central governments and central banks”, “Institutions” and “Corporates” with the exception of those “Corporates” segments. For the latter as well as for the retail segment statistical scoring or hybrid models combining both approaches are commonly used. Quantitative rating methodologies are developed based on applicable statistical modelling techniques, such as logistic regression.

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle (TTC) matrices, which are derived from a multi-year rating history. For the next two years, economic forecasts are available. These forecasts are used to transform the TTC matrices into point-in-time (PIT) rating migration matrices.

LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer’s probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.

The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

IFRS 9 credit risk tables are presented below.

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2019

31 December 2019	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
Investment grade	-	-	-	-	-
Cash balances at central banks	915	-	-	-	915
Investment grade	*915*	-	-	-	*915*
Other demand deposits	155	-	-	-	155
Investment grade	*155*	-	-	-	*155*
Securities at fair value through other comprehensive income	43,726	-	-	-	43,726
Investment grade	*43,726*	-	-	-	*43,726*
Due from banks	999	-	-	-	999
Investment grade	*999*	-	-	-	*999*
Default grade	234,396	-	-	-	234,396
Non-investment grade	*234,396*	-	-	-	*234,396*
Retail	49,373	6,650	2,784	-	58,807
Investment grade	*46,995*	*5,755*	-	-	*52,750*
Default grade	*419*	*107*	*2,784*	-	*3,310*
Non-investment grade	*1,959*	*788*	-	-	*2,747*

All figures in tables are in HUF million except otherwise noted

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Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2019 (continued)

31 December 2019 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Corporate	9	-	-	-	9
Investment grade	*9*	-	-	-	*9*
Default grade		-	-	-	-
Non-investment grade	-	-	-	-	-
Local goverments	1,303	-	12	-	1,315
Investment grade	*1,303*	-	-	-	*1,303*
Default grade	-	-	*12*	-	*12*
Non-investment grade	-	-	-	-	-
Total gross carrying amount	**330,876**	**6,650**	**2,796**	**-**	**340,322**
Loss allowance	25	405	572	-	1,002
Carrying amount	**330,851**	**6,245**	**2,224**	**-**	**339,320**

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2018

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
Cash balances at central banks	324	-	-	-	324
Other demand deposits	990	-	-	-	990
Securities at fair value through other comprehensive income	39,295	-	-	-	39,295
Due from banks	181,786	-	-	-	181,786
Investment grade	*181,786*	-	-	-	*181,786*
Retail	60,165	6,026	3,858	-	70,049
Investment grade	*57 870*	*5 577*	-	-	*63 447*
Default grade	-	-	*3,858*	-	*3,858*
Nem-befektetési besorolás	*2,295*	*449*	-	-	*2,744*
Corporate	4,281	-	2,791	-	7,072
Investment grade	*4,281*	-	-	-	*4,281*
Default grade	-	-	*2,791*	-	*2,791*
Advances	188	-	3	-	191
Investment grade	*188*	-	-	-	*188*
Default grade	-	-	*3*	-	*3*
Total gross carrying amount	**287,029**	**6,026**	**6,652**	**-**	**299,707**
Loss allowance	88	460	2,540	-	3,086
Carrying amount	**286,941**	**5,566**	**4,114**	**-**	**296,621**

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 1 January 2018

1 January 2018	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
Cash balances at central banks	347	-	-	-	347
Other demand deposits	302	-	-	-	302
Securities at fair value through other comprehensive income	40,758	-	-	-	40,758
Due from banks	144,193	-	-	-	144,193
Investment grade	144,193	-	-	-	144,193
Retail	70,900	725	7,328	-	78,953
Investment grade	*70,900*	*725*	*44*	-	*71,669*
Default grade	-	-	*7,284*	-	*7,284*
Corporate	7,404	-	1,676	-	9,080
Investment grade	7,404	-	-	-	7,404
Default grade	-	-	1,676	-	1,676
Advances	1,599	-	-	-	1,599
Total gross carrying amount	**265,504**	**725**	**9,004**	**-**	**275,232**
Loss allowance	163	50	4,391	-	4,604
Carrying amount	**265,341**	**675**	**4,613**	**-**	**270,628**

All figures in tables are in HUF million except otherwise noted

Impairment

31 december 2019	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail other loans	846	279	567
Retail mortgage loans	1,938	281	1,657
Advance	12	12	-
Total credit-impaired assets	**2,796**	**572**	**2,224**

31 december 2019	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	270	107	377
Collective	25	135	465	625
Total	**25**	**405**	**572**	**1,002**

31 december 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	377	1,534	1,911
Collective	88	83	1,004	1,175
Total	**88**	**460**	**2,538**	**3,086**

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2018

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Impairment as at 1 January 2018	**163**	**50**	**4,391**	**-**	**4,604**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(13)	443	-	-	430
Transfers from Stage 1 to Stage 3	(7)	-	75	-	68
Transfers from Stage 2 to Stage 3	-	(12)	18	-	6
Transfers from Stage 3 to Stage 2	-	9	(53)	-	(44)
Transfers from Stage 2 to Stage 1	1	(22)	-	-	(21)
Transfers from Stage 3 to Stage 1	5	-	(238)	-	(233)
New financial assets originated or purchased	6	-	14	-	20
Changes in PDs/LGDs/EADs	(43)	(3)	43	-	(3)
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(24)	(5)	(1,712)	-	(1,741)
Impairment as at 31 December 2018	**88**	**460**	**2,538**	**-**	**3,086**

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2019

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2019	**88**	**460**	**2,538**	**-**	**3,086**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(3)	15	-	-	12
Transfers from Stage 1 to Stage 3	(2)	-	31	-	29
Transfers from Stage 2 to Stage 1	1	(10)	-	-	(9)
Transfers from Stage 2 to Stage 3	-	(14)	62	-	48
Transfers from Stage 3 to Stage 1	1	-	(57)	-	(56)
Transfers from Stage 3 to Stage 2	-	2	(16)	-	(14)
New financial assets originated or purchased	5	8	-	-	13
Changes in PDs/LGDs/EADs	-	(56)	(133)	-	(189)
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(65)	-	(1,853)	-	(1,918)
Impairment loss as at 31 December 2019	**23**	**405**	**572**	**-**	**1,002**

All figures in tables are in HUF million except otherwise noted

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Provision movement table

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Provision as at 1 January 2018	**6**	**0**	**3**	**9**
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	-	5	-	5
Transfers from Stage 1 to Stage 3	-	-	1	1
New financial assets originated or purchased	1	-	-	1
Changes in PDs/LGDs/EADs	-1	-	-1	-2
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-2	-	-1	-3
Provision as at 31 December 2018	**4**	**5**	**2**	**11**
Provision as at 1 January 2019	**4**	**5**	**2**	**11**
Movements with P&L impact				
Transfers:				
Transfers from Stage 2 to Stage 3	-	-	-1	-1
Changes in PDs/LGDs/EADs	-3	-4	-	-7
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-	-	-	-
Provision as at 31 December 2019	**1**	**1**	**1**	**3**

Exposure to credit risk on loan commitments and financial guarantees

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	470	4	64	538
Total exposure to credit risk	**470**	**4**	**64**	**538**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	1	5	2	8
Total exposure to credit risk	**1**	**5**	**2**	**8**

1 January 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	3,070	1	10	3,081
Interbank	338	-	-	338
Total exposure to credit risk	**3,408**	**1**	**10**	**3,419**

All figures in tables are in HUF million except otherwise noted

30.4.3. Forborne loans

The Bank recognizes a receivable that contains concession as a restructured loan when the original contract was modified due to avoid the non-payment of the receivable in cases when the debtor was not able to fulfil the original contractual requirements on repaying the loan or would not be able to fulfil those requirements without those concessions made.

The Bank recognises the followings as concession in case of restructured loans:

a) modification of original contractual terms in order to enable the debtor in financial difficulty to meet its obligations on debt service and which modification the Bank would have not provided if the debtor had no financial difficulties,
b) partial or complete refinancing of loan agreement which the Bank would have not provided if the debtor had no financial difficulties.
c) when the discrepancy between the original and modified contractual terms are in favor of the debtor and the terms of these modified terms are more favorable than the ones that the Bank provides to clients with similar risk classification.

Modification of contractual terms that meets the criteria of concession:

a) modifications of contractual terms that qualify as concessions can be the followings:
    - postponement on repayment (on principal and on interest as well) for a transitional period (grace period)
    - instalment
    - modification of interest rate, repricing (in a form of discount)
    - capitalization of interest
    - change in currency
    - prolonging the maturity of the loan
    - rescheduling the repayments
    - reducing the amount of required collateral, replacing present collateral to another one, forfeiture of collateral (release of collateral)
    - determination of new contractual terms, termination a part of original contractual terms.
b) a contract modification that qualifies as a concession may result in a supplementary agreement or a new contract between the parties or between a related party of the debtor and the original creditor that is a loan granted in order to repay the current outstanding balance of the loan (principal and interest) determined based on original contractual terms that was terminated or not yet terminated and also in order to avoid the increase in risk classification and to mitigate the loss in which cases the supplementary agreement or the new contracts that result in a new loan in the Bank's records are considered as restructured loans.

The following cases are not considered to be restructuring in case of the Bank:

a) loans that were modified due to the change of market conditions and in case of which the parties agreed on terms that are available to debtors with similar risk profile classification or similar to other contract under the same market conditions;
b) prolonging of short-term credit facilities that were granted for operational or working capital purposes (overdraft, revolving credit) except when the prolonging of maturity has occurred for the second time in a quarter;
c) prolonging of maturity in case of loans when the debtor that fulfils all contractual terms upon deadline (performing loans), which loans would have most probably been approved for disbursement as of now;

d) prolonging the maturity in case of loans that are fully covered with collateral (apart from the fulfilment of contractual terms of the debtor no loss is expected) that is collateral with low risk classification based on internal policies implemented by the Bank (Collateral Valuation policy)
e) technical prolongation (temporary extension due to the delay in contracting a new loan)
f) frescheduling the repayment of the loan within original maturity, when the contractual terms after modification do not meet the definition of ballon/bullet loans.

The cases mentioned above are not considered to be restructuring only in cases when the prolongation of maturity has not occurred in order to avoid the non-payment of debtor, furthermore when the end of prolongation is not later than the original contracted maturity.

The Bank considers the following cases as non-performing restructuring:

a) the modified contracted loan was considered to be non-performing loan before the modification or the loan would be considered to be non-performing without the modification,
b) the contract contains partial or complete release of the debt,
c) the debtor performed a principal or interest repayment on loans that would be considered as non-performing loans without concession around when a concession was made in case of another debt,
d) modification of contractual terms when repayment involves the usage of collateral in cases of which the modification includes concession as well.

In case of non-performing restructured loans the Bank classifies these loans as default based on the evaluation of monitoring indicators and the classification of these loans is Stage3.

Change in monitoring/recovery of restructured loans:

- recovery period in case of restructured performing loans is 730 day (delay in repayment can be no longer than 30 days during this period), after successful recovery the deal can be treated under normal or intensified monitoring;
- recovery period in case of non-performing deals – deals with default flag or restructured – is 365 day (no delay in payment can occur during this period), after successful recovery the deal can be treated under intensive/preventive monitoring

Rating of restructured loans:

- Rating of restructured loans is performed on a monthly basis, rating of total portfolio is performed quarterly.
- Restructured loans are classified in to performing and non-performing categories and in stage categories as well. During the classification the reason of restructuring is considered and also the stage of restructuring based on relevant regulatory conditions.
- In case of restructured loans that are below the determined material threshold the rating is performed collectively. When a restructured loan is considered to contain a high risk can be rated individually.

An analysis of forborne loan portfolio by loan types

31 December 2019	Gross value	Impairment	Carrying amount
Individual loans	6,063	142	5,921
Corporate loans	306	35	271
Total	**6,369**	**177**	**6,192**

31 December 2018	Gross value	Impairment	Carrying amount
Individual loans	8,013	467	7,546
Corporate loans	372	55	317
Total	**8,385**	**522**	**7,863**

1 January 2018	Gross value	Impairment	Carrying amount
Individual loans	6,756	2,365	4,391
Corporate loans	383	57	326
Total	**7,139**	**2,422**	**4,717**

30.4.4. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by the Bank:

Real estate
The Takarék Mortgage Bank Plc. accepts as collateral mortgages, independent or separated liens established on such real estate that is registered in Hungary and have long live stable value.
Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan and who establish the collateral value conservatively.

State guarantee and GHG Ltd. or AVGHA guarantee
All instances of State guarantee and other guarantee accepted by the Banks involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions.

Bail
Deposit can take the form of cash, bank deposit or securities.

Other
In addition to the above the Banks also accept assigned claims, lien on claims.

The collaterals are related to the loans fully. The mortgage collaterals that are related to own lending are recognised at collateral value (discounted market value) by the Bank, the other collaterals are recognised at its own value (for example in case of assignment at the amount of the assignment). The Other collaterals category includes the value of the insurances.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals:

	31 December 2019	31 December 2018	1January 2018
Mortgage	719,055	799,815	679,463
Bail	12	26	32
Guarantee	14,158	1,879	2,371
Other collaterals	-	-	-
Total	**733,225**	**801,720**	**681,866**

The collaterals are fully linked to the loans. Mortgages are recorded by the Bank at the collateral value in case of own credit (market value less discount factor). All other items are valued at their own value (for example the assignment is valued at the amount which was assigned). The category of other collaterals contains the insurances.

The table below shows the maximum credit risk exposure:

	31 December 2019	31 December 2018	1 January 2018
Other demand deposit	155	990	302
Financial assets at fair value through other comprehensive income	43,724	39,295	40,758
Individual loans	58,807	70,049	78,953
Corporate loans	9	7,072	9,080
Dues from banks	234,396	181,786	144,193
Advances	1,315	191	1,599
Off-balance sheet commitments	18,094	15,700	9,812
Total gross credit risk exposure	**356,500**	**315,083**	**284,697**

30.5. Market risk

Takarék Mortgage Bank Plc. maintains low the maturity-, interest rate- and foreign exchange rate risk derive from the asset, liability and off balance sheet commitments.

30.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assess interest rate risk on a continuous basis with the help of Gap-analysis, VaR calculations and sensitivity analysis. Interest rate risk is managed through mortgage bond issues and interest rate swaps, taking into account the breakdown of the loan portfolio by interest rate.

All figures in tables are in HUF million except otherwise noted

Interest rate risk exposure – sensitivity analysis (figures in HUF million)

	Sensitivity of interest income 2019	Sensitivity of interest income 2018	Sensitivity of interest income 2019 +10 bp	Sensitivity of interest income 2019 +25 bp
HUF	(11)	6	(109)	(273)
EUR	1	(1)	14	36
Other	-	-	-	-

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.
Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2019 net interest income would decrease by HUF 11 million in case of HUF, it would increase by HUF 1 million in case of EUR.

30.6.1. Exchange rate risk management

The business policy of the Mortgage Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

FX risk (in the case of 1% increase in exchange rate) HUF thousand

FX	Effect on earning before income tax (31 December 2019)	Effect on capital (31 December 2019)	Effect on earning before income tax (31 December 2018)	Effect on capital (31 December 2018)
EUR	(850)	(850)	2,610	2,610
USD	-	-	-	-
CHF	(110)	(110)	(10)	(10)
Other	-	-	-	-

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could decrease with HUF 850 thousand, in case of CHF items it could decrease with HUF 110 thousand. The effect of other foreign currency is not significant.

Separate FX financial position of the bank in terms of main currencies:

31 December 2019	HUF	EUR	CHF	Other	Total
Total assets	332,404	10,045	448	-	342,897
Total liabilities	(269,597)	(7,798)	(459)	-	(277,854)
Equity	(65,043)	-	-	-	(65,043)
Off-balance sheet items	(10,445)	(7,649)	-	-	(18,094)
Position	**(12,681)**	**(5,402)**	**(11)**	**-**	**(18,094)**

31 December 2018	HUF	EUR	CHF	Other	Total
Total assets	322,145	11,144	498	-	333,787
Total liabilities	(259,534)	(11,571)	(497)	-	(271,602)
Equity	(62,185)	-	-	-	(62,185)
Off-balance sheet items	(-8,863)	(6,837)	-	-	(15,700)
Position	**(8,437)**	**(7,264)**	**1**	**-**	**(15,700)**

1 January 2018	HUF	EUR	CHF	Other	Total
Total assets	290,466	(14,304)	503	-	(305,273)
Total liabilities	(232,840)	(14,319)	(502)	(1)	(247,662)
Equity	(57,611)	-	-	-	(57,611)
Off-balance sheet items	(7,511)	(2,301)	-	-	(9,812)
Position	**(7,496)**	**(2,316)**	**1**	**(1)**	**(9,812)**

30.7. Liquidity and maturity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by coordinating the maturity of receivables and payables. At the same time, the Bank applys maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times. The Banks regularly review prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares their liquidity plans and financing position based on different scenarios, also including effects coming from stress tests. The Bank maintains a high level of liquid asset portfolio consisting of mainly government securities and deposits with MTB.

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2019	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	3,698	12	-	-	-	3,710
Issued debt securities	-	5,219	30,069	196,436	34,205	-	265,929
from this: Mortgage bonds	-	*5,219*	*30,069*	*196,436*	*34,205*	-	*265,929*
from this: Bonds	-	-	-	-	-	-	-
Other financial liabilities	180	6	21	49	-	-	256
Total banking liabilities	**180**	**8,923**	**30,102**	**196,485**	**34,205**	**-**	**269,895**

31 December 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	226	13,837	26	-	-	-	14,089
Issued debt securities	-	-	22,121	158,213	40,645	26 818	247,797
from this: Mortgage bonds	-	-	*15,145*	*138,032*	*40,645*	*26 818*	*220,640*
from this: Bonds	-	-	*6,976*	*20,181*	-	-	*27,157*
Other financial liabilities	225	229	46	7	-	-	507
Total banking liabilities	**451**	**14,066**	**22,193**	**158,220**	**40,645**	**26,818**	**262,393**

All figures in tables are in HUF million except otherwise noted

1 January 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	38,133	8,564	-	-	-	46,697
Issued debt securities	-	3,973	26,451	153,169	5,802	-	189,395
from this: Mortgage bonds	-	*2,264*	*24,264*	*146,151*	*5,802*	-	*178,481*
from this: Bonds	-	*1,709*	*2,187*	*7,018*	-	-	*10,914*
Other financial liabilities	918	1,719	48	52	-	-	2,737
Total banking liabilities	**918**	**43,825**	**35,063**	**153,221**	**5,802**	**-**	**238,829**

In the table, the undiscounted interest cash flows includes only the accrued interest.

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2019

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	1,070	-	1,070
Financial assets held for trading	175	-	175
Financial assets at fair value through other comprehensive income	-	43,734	43,734
Financial assets at amortised cost	46,298	248,228	294,526
Derivatives – Hedge accounting	2,676	-	2,676
Tangible assets	-	157	157
Intangible assets	-	241	241
Tax assets	-	-	-
Other assets	318	-	318
Total assets	**50,537**	**292,360**	**342,897**
Liabilities			
Financial liabilities held for trading	136	-	136
Financial liabilities designated at fair value through profit or loss	-	6,552	6 552
Financial liabilities measured at amortised cost	39,205	230,690	269 895
Derivatives – Hedge accounting	288	-	288
Provisions	9	500	509
Tax liabilities	-	93	93
Other liabilities	381	-	381
Total liabilities	**40,019**	**237,835**	**277,854**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2018

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	1,314	-	1,314
Financial assets held for trading	2,876	-	2,876
Financial assets at fair value through other comprehensive income	-	39,305	39,305
Financial assets at amortised cost	42,290	213,722	256,012
Investments in subsidaries, joint ventures and associates	-	31,978	31,978
Tangible assets	-	249	249
Intangible assets	-	383	383
Tax assets	-	218	218
Other assets	1,452	-	1,452
Total assets	**47,932**	**285,855**	**333,787**
Liabilities			
Financial liabilities held for trading	831	-	831
Financial liabilities designated at fair value through profit or loss	-	7,437	7,437
Financial liabilities measured at amortised cost	36,710	225,683	262,393
Provisions	6	566	572
Tax liabilities	-	14	14
Other liabilities	355	-	355
Total liabilities	**37,902**	**233,700**	**271,602**

All figures in tables are in HUF million except otherwise noted

30.8. Management of operational

Operational risk is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Bank through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.
The Bank performed the oprisk self-assessment referring to the key activities and determined incidences that are unfrequent, but in case of occurrence inflict heavy losses, which effects are measured by scenario analysis.
In accordance with the supervisory expectations the Bank are compiled an inventory of the models used to assess model risks and a product inventory to identify the risks inherent in the products.

30.9. Treatment of risk concentration

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate and also by diversifying their product portfolio from collateral perspective (meaning to increase the proportion of other than real estate securities), seeks to atomize risks and enforce a wide range of collateral.

31. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

The members of Integration Organisation of Cooperative Credit Institution (SZHISZ) should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

On the capital adequacy of the members of the integration the MTB Ltd publishes the audited financial statements in the disclosure document of the business year.

32. RELATED PARTY TRANSACTION

For the purpose of the financial statements, MTB Zrt. identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10%. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions.

Notes to the Separate Financial Statements

The list of the related parties, -including the subsidiaries, associates and other shares of the Takarek Mortgage Bank Plc. as at 31 December 2019 is the following. They are presented from the perspective of the parent company, MTB.

Company	Classification	Core business
MTB Magyar Takarékszövetkezeti Bank Zrt.	Parent company	Other lending
Bóly és Vidéke Takarékszövetkezet	Other shares	Other monetary intermediation
Central European Credit d.d.	Other shares	Other financial intermediation
DBH Investment Zrt.	Other shares	Other financial intermediation
Díjbeszedő Faktorház Zrt.	Other shares	Purchasing, handling and collection receivables of retail customers
Díjbeszedő Informatikai Kft.	Other shares	Data services, web hosting services
DÍJNET Zrt.	Other shares	Other business support service activities
Diófa Alapkezelő Zrt.	Other shares	Fund management
Diófa Ingatlankezelő Kft.	Other shares	Real estate management
Diófa TM1 Ingatlan Befektetési Alap	Other shares	Real estate investment
Magyar Posta Befektetési Szolgáltató Zrt.	Other shares	Selling investment products
MA-TAK-EL Zrt.	Other shares	Complex administrative service
MPT Security Zrt.	Other shares	Securitiy service
Takarék Faktorház Zrt.	Other shares	Other lending
Takarék Ingatlan Zrt.	Other shares	Estate agent service
Takarék Invest Befektetési és Ingatlankezelő Kft.	Other shares	Property management
Takarék Kockázati Tőkealap	Other shares	Investment fund
Takarék Központi Követelés Kezelő Zrt.	Other shares	Other financial intermediation
Takarék Lízing Zrt.	Other shares	Other lending
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Other shares	Investment fund
Takarék Zártkörű Befektetési Alap	Other shares	Investment dund
Takarékbank Zrt.	Other shares	Other monetary intermediation
Takarékinfo Központi Adatfeldolgozó Zrt.	Other shares	Data services, web hosting services
Takarékszövetkezeti Informatikai Kft.	Other shares	IT system operation
TAK-INVEST Informatikai és Szolgáltató Zrt.	Other shares	IT service provider
TIFOR Takarék Ingatlanforgalmazó Zrt.	Other shares	Sale of properties
TIHASZ Takarék Ingatlanhasznosító Zrt.	Other shares	Renting and operating of real estate
TKK Csoport Ingatlankezelő Kft.	Other shares	Sale of properties
TKK Ingatlan Kft.	Other shares	Sale of properties
TKK Takarék Követelésbehajtó Zrt.	Other shares	Debt collection

As at 31 December 2019 and 2018, the Bank didn't have any loans to members of the Bank's management bodies.

	31 December 2019		31 December 2018	
	Head-count	The amount of emoluments	Head-count	The amount of emoluments
Members of Board of Directors	6	52	6	46
Members of Supervisory Board	6	17	6	15
Total payments		**69**		**61**

Details of transaction in 2019 and 2018 between the Bank and other related parties are disclosed on the next table.

31 December 2019	Parent	Subsidiaries	Associates and joint ventures	Key management
Due from banks	17,955	-	94,473	-
Loans and advances to customers at amortised cost	-	-	1,003	-
Other assets	1,593	-	92	-
Total assets	**19,548**	**-**	**95,568**	**-**
Due to banks	456	-	-	-
Deposits from customers	-	-	-	-
Other liabilities	6,763	-	14,063	-
Total liabilities	**7,219**	**-**	**14,063**	**-**
Interest income	235	1,362	149	-
Interest expense	(615)	(449)	(30)	-
Net interest income	**(380)**	**913**	**119**	**-**
Fee and commission income	1,484	168	71	-
Fee and commission expense	(0)	(3)	(243)	-
Net fee and commission income	**1,484**	**165**	**(172)**	**-**
Other operating income	1,381	-	899	-
Other operating expense	(790)	-	(599)	-
Operating income	**591**	**-**	**300**	**-**
Operating expense	(11)	-	(263)	(69)
Profit/loss on transactions with related parties	**1,684**	**1,079**	**(16)**	**(69)**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Parent	Subsidiar-ies	Associates and joint ventures	Key man-agement
Due from banks	12,657	64 216	-	-
Loans and advances to customers at amortised cost	-	-	186	-
Other assets	1,816	18	(32)	-
Total assets	**14,473**	**64 234**	**154**	**-**
Due to banks	11,917	146	-	-
Deposits from customers	-	-	-	-
Other liabilities	11,020	35,937	17	-
Total liabilities	**22,937**	**36,083**	**17**	**-**
Interest income	200	1,392	-	-
Interest expense	(1,056)	(249)	(96)	-
Net interest income	**-856**	**1,143**	**(96)**	**-**
Fee and commission income	-	226	-	-
Fee and commission expense	-	(922)	(21)	-
Net fee and commission income	**-**	**(696)**	**(21)**	**-**
Other operating income	1,630	21	1,115	-
Other operating expense	-	(714)	(1,437)	-
Operating income	**1,630**	**(693)**	**(322)**	**-**
Operating expense	-	-	(31)	(61)
Profit/loss on transactions with related parties	**774**	**(246)**	**(470)**	**(61)**

All figures in tables are in HUF million except otherwise noted

33. NET GAINS

The allocation of operating income to financial instrument categories excluding gains from foreign exchange transactions:

1 January 2019 – 31 December 2019	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	630	-	547	7,963	1,119	-	2	10 261
Interest expenses	(352)	(271)	-	(6,699)	(375)	(1)	-	(7,698)
NET INTEREST INCOME	**278**	**(271)**	**547**	**1,264**	**744**	**(1)**	**2**	**2,563**
Fee and commission income	-	-	-	-	-	591	-	591
Fee and commission expenses	-	-	-	-	-	(436)	-	(436)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**155**	**-**	**155**
DIVIDEND INCOME*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	588	(165)	-	-	-	423
Gains on financial assets and liabilities held for trading, net	2,319	-	-	-	-	-	-	2,319
Gains on financial assets and liabilities designated at fair value through profit or loss	-	147	-	-	-	-	-	147
(Losses) from hedge accounting, net	-	-	-	-	(913)	-	-	(913)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	41	41
Other operating income	-	-	-	-	-	-	787	787
Other operating expense	-	-	-	-	-	-	(8)	(8)
OPERATING INCOME	**2,597**	**(124)**	**1,135**	**1,099**	**(169)**	**154**	**822**	**5,514**

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

**The full amount of dividend icome is income from subsidiaries.*

1 January 2018 – 31 December 2018	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	1,140	-	766	9,176	-	-	5	11,087
Interest expenses	(715)	-	(243)	(7,427)	-	-	-	(8,385)
NET INTEREST INCOME	**425**	**-**	**523**	**1,749**	**-**	**-**	**5**	**2,702**
Fee and commission income	-	-	-	-	-	610	-	610
Fee and commission expenses	-	-	-	-	-	(1,449)	-	(1,449)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**(839)**	**-**	**(839)**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**0**	**234**	**234**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	3,002	-	-	-	3,002
Gains on financial assets and liabilities held for trading, net	1,526	-	-	-	-	-	-	1,526
Gains on financial assets and liabilities designated at fair value through profit or loss, net	-	156	-	-	-	-	-	156
Gains on derecognition of non-financial assets	-	-	-	-	-	-	22	22
Other operating income	-	-	-	-	-	-	1,078	1,078
Other operating expense	-	-	-	-	-	-	(12)	(12)
OPERATING INCOME	**1,951**	**156**	**523**	**4,751**	**-**	**(839)**	**1,327**	**7,869**

All figures in tables are in HUF million except otherwise noted

34. IMPLEMENTATION OF IFRS

These financial statements – as at 31 December 2019 – are the first separate financial statements prepared by the Bank on the basis of IFRS. During the period up to 31 December 2018 – including also the date of 31 December 2018 – the separate financial statements were prepared by the Bank in accordane with the Hungarian Accounting Standards.

Accordingly the Bank is presented the financial statements at the date of 31 December 2019 based on IFRS, as well as the comparative period data as at 31 December 2018. Furthermore the Bank is prepared the opening comparative data of financial statements - at the date of the transition – at the date of 1 January 2018.

34.1. Comparing the amount in the financial statements and profit or loss prepared under the Accountig Act and under IFRS

The previous data in the financial statement presented according to the Hungarian Accounting Standards were adjusted during the preparation of its opening financial statements under IFRS. The following tables and relating notes are explained the effect of the implementation of IFRS on the financial statements and on its financial performance of the Bank.

1 January 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Assets				
Cash, cash balances at central banks and other demand deposits		649	-	649
Financial assets held for trading	a)	-	43	43
Financial assets at fair value through other comprehensive income	b)	40,581	187	40,768
Financial assets at amortised cost	c)	228,046	1,175	229,221
Investments in subsidiaries, joint ventures and associates		31,978	-	31,978
Tangible assets	d)	317	99	416
Intangible assets		429	-	429
Tax assets	e)	-	434	434
Other assets		1,369	(34)	1,335
Total Assets		**303,369**	**1,904**	**305,273**

All figures in tables are in HUF million except otherwise noted

1 January 2018	Notes	HAS	Effect of imple-mentation of IFRS	IFRS
Liabilities				
Financial liabilities at fair value through profit or loss	f)	-	7,386	7,386
Financial liabilities at amortised cost	f)	244,314	(5,485)	238,829
Provisons	g) h)	1,211	(5)	1,206
Oher liabilities		333	(92)	241
Total liabilities		**245,858**	**1 ,804**	**247,662**
Equity				
Share Capital		10,849	-	10,849
Share premium	b)	27,926	-	27,926
Accumulated other comprehensive income		-	380	380
Retained earrings		18,483	(280)	18,203
Other reserves		460	-	460
Treasury shares (-)		(207)	-	(207)
Total equity		**57,511**	**100**	**57,611**
Total equity and total liabilities		**303,369**	**1,904**	**305,273**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Assets				
Cash, cash balances at central banks and other demand deposits		1,314	-	1,314
Financial assets held for trading	a)	-	2,876	2,876
Financial assets at fair value through other comprehensive income	b)	39,117	188	39,305
Financial assets at amortised cost	c)	254,741	1,271	256,012
Investments in subsidiaries, joint ventures and associates		31,978	-	31,978
Tangible assets	d)	196	53	249
Intangible assets		383	-	383
Tax assets	e)	-	218	218
Other assets		1,452	-	1,452
Total Assets		**329,181**	**4,606**	**333,787**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Liabilities				
Financial liabilities held for trading	a)	-	831	831
Financial liabilities at fair value through profit or loss	f)	-	7,437	7,437
Financial liabilities at amortised cost	f)	268,241	(5,848)	262,393
Provisons	g) h)	557	15	572
Tax liabilities	e)	-	14	14
Oher liabilities		350	5	355
Total liabilities		**269,148**	**2,454**	**271,602**
Equity				
Share Capital		10,849	-	10,849
Share premium		27,926	-	27,926
Accumulated other comprehensive income	b)	-	274	274
Retained earrings		18,230	(279)	17,951
Other reserves		712	-	712
Treasury shares (-)		(207)	-	(207)
Profit for the year		2,523	2,157	4,680
Total equity		**60,033**	**2,152**	**62,185**
Total equity and total liabilities		**329,181**	**4,606**	**333,787**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Interest income	c)	9,155	1,932	11,087
Interest expenses	b) f)	(8,141)	(244)	(8,385)
Net interest income		**1,014**	**1,688**	**2,702**
Fee and commission income		610	-	610
Fee and commission expenses		(1,449)	-	(1,449)
Net fee and commission income		**(839)**	**0**	**(839)**
Dividend income		234	-	234
Profit from foreign exchange transactions		4	-	4
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		3,002	-	3,002
(Losses) or gains on financial assets and liabilities held for trading, net	a)	(302)	1,828	1,526
Gains on financial assets and liabilities designated at fair value through profit or loss, net		-	156	156
Net trading result		**2,938**	**1,984**	**4,922**
Other operating income		1,100	-	1,100
Other operating expense		(12)	-	(12)
OPERATING INCOME, NET		**4,201**	**3,672**	**7,873**
Provisions	g) h)	654	(21)	633
Impairment on financial assets not measured at fair value through profit or loss	c)	1,662	(1,250)	412
Reversal of impairment on non-financial assets		(3)	-	(3)
General and administrative expenses	d)	(3,990)	(4)	(3,994)
Profit before tax		**2,524**	**2,397**	**4,921**
Income tax expense	e)	-	(241)	(241)
Profit for the year		**2,524**	**2,156**	**4,680**
Other comprehensive income		-	(106)	(106)
Comprehensive income for the year		**2,524**	**2,050**	**4,574**

All figures in tables are in HUF million except otherwise noted

Notes to the significant changes between financial statements under the Hungarian Accounting Standards and under IFRS:

a) notes:

The financial assets and liabilities held for trading line item contains derivative financial instruments according to the standard.

b) notes:

Among financial assets at fair value through other comprehensive income are equity (instruments) and debt securities also. As the Bank use fair valuation, these instruments are presented at fair value through other comprehensive income. The effect of implementation of IFRS shows the fair value adjustment of securities.

c) notes:

The amount of the initial fees and commisson was recognised numerically in case of loans at amortised cost in accordance with the standard. As at 1 January 2018 was the impairment under IFRS HUF 4,604 million, as at 31 December 2018 was the same value HUF 3,086 million, whereas the impairment recognised previously according to hungarian accounting standards („HAS") was HUF 2,196 million.

d) notes:

In the line „Tangible assets" were recognised the right-of-use assets and the related lease liabilities according to IFRS 16. This effect on the total balance sheet was HUF 99 million as at 1 January 2018, and was HUF 53 million as at 31 December 2018.

e) notes:

The deffered tax assets and liablities were recognised according to IAS 12 through transition to IFRS.

f) notes:

Mortgage bonds from issued debt securities, that are recognised at fair value, were reclassified from financial liabilities at amortised cost to financial liabilities designated at fair value through profit or loss.

g) notes:

The effect of expected loss under IFRS 9.

h) notes:

Recognition of provision for amounts relating to accrued vacation pay.

34.2. Equity correlation table

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclo-sed as a part of the Notes for the reporting date by the Bank.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 January 2018:

1 January 2018	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**19,043**	**-**	**-**	**(207)**	**-**	**57,611**
Accumulated other comprehensive income	-	-	-	-	(380)	380	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	460	(460)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**460**	**17,996**	**380**	**207**	**(207)**	**-**	**57,611**

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2018:

31 December 2018	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**18,937**	**-**	**-**	**(207)**	**4,680**	**62,185**
Accumulated other comprehensive income	-	-	0	-	(274)	274	-	-	-	-
Repurchased treasury shares	-	-	0	-	(207)	-	207	-	-	-
General reserve	-	-	0	712	(712)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**712**	**17,744**	**274**	**207**	**(207)**	**4,680**	**62,185**

All figures in tables are in HUF million except otherwise noted

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2019:

31 December 2019	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**24,335**	**-**	**-**	**(207)**	**2,140**	**65,043**
Accumulated other comprehensive income	-	-	-	-	(992)	992	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	927	(927)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**927**	**22,209**	**992**	**207**	**(207)**	**2,140**	**65,043**

All figures in tables are in HUF million except otherwise noted

Reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU:

	31 December 2019	31 December 2018	1 January 2019
Share capital in accordance with IFRS adopted by EU	10,849	10,849	10,849
Share capital registered on the Registry Court	10,849	10,849	10,849
Difference	**-**	**-**	**-**

Untied retained earnings available for the payment of dividends are as follows:

	31 December 2019	31 December 2018	1 January 2018
Retained earnings and other reserves	24,335	18,937	19,043
Unused portion of reserve for developments	-	-	-
Other capital reserve	-	-	-
Accumulated other comprehensive income	992	(274)	(380)
Repurchased treasury shares (Tied-up reserve)	(207)	(207)	(207)
General reserve	(927)	(712)	(460)
Net profit for the year	2,140	4,680	0
Untied retained earnings available for the payment of dividends	**26,333**	**22,424**	**17,996**

All figures in tables are in HUF million except otherwise noted

35. POST BALANCE SHEET EVENTS

The Takarek Mortgage Bank Co. Plc. (TMB) has won the Budapest Stock Exchange BÉT LEGEK (BSE BESTS)'s Award of Best Mortgage Bonds Issuer of the Year 2019 based on TMB's very active capital market acitivity. The reason behind the decision is that TJB issued nearly 60 billion nominal mortgage bonds and listed them on the stock exchange. The TMB organized 15 public auctions on the BSE auction modul, with the participation of the entire consortium of the Mortgage Bank (MTB Magyar Takarékszövetkezeti Bank Zrt., MKB Nyrt., Concorde Securities Zrt. and Erste Securities Zrt.) during 2019. TMB as a pure mortgage bank (refinancing and covered bond issuance) continues to regularly issue mortgage bonds through regular auctions and to offer competitive assets to investors, and to provide adequate long term funding for the refinancing partners.

S&P Global Ratings (Madrid) announced on February 28, 2020 that it affirmed the „BBB" foreign and local currency ratings to Takarék Mortgage Bank Co. Plc's mortgage covered bond program and all outstanding covered bond issuances, while the outlook on the covered bond rating was revised to positive from stable. The rating action follows the February 14, 2020 revision of Hungary's long term sovereign rating outlook to positive from stable

The Budapest Stock Exchange (BSE) published the new composition of the BUX and BUMIX baskets - valid from March 23, 2020 - on March 12, 2020. The CEO of the Budapest Stock Exchange Ltd. adopted the resolution 117/2020 and decided based on Point 3.3.6.1 a) the exclusion of the shares of the Compa-ny from the BUX basket¬ and from the BUMIX basket.

On March 11, 2020, the Management Board of the Takarek Group approved the Pandemic Plan and the Amendment of the Business Continuity Policy, and the Pandemic Operational Staff (POT) was established. From this time the POT coordinates in close cooperation with the Management Board and other relevant departments the tasks of the Takarék Group in relation to the coronavirus crisis. The POT continually formulates instructions and recommendations to all employees and about this send information to the meetings at appropriate intervals.
The management regularly monitors the impact of the crisis on equity and profit or loss and decides on appropriate actions which it also informs the National Bank of Hungary.

This situation is expected to have an impact on macroeconomic circumstances in the future (e.g. GDP growth, unemployment, inflation), which indicators were taken into account for the purpose of the IFRS9 models; the impairment and provisioning levels are expected to increase in 2020 and 2021.

If current economic processes are sustained, payment facilities may be introduced to help clients who are defaulting on payment moratorium on repayments based on the Bank's own decisions, and these influence the classification of loans and guarantees, potentially causing an increase in impairment and provisions. See credit risk at the balance sheet date in note 30.4.

Liquidity shortage is expected in the financial markets; therefore the renewal of existing derivative contracts, government securities and mortgage bonds will potentially be subject to less favourable terms than in 2019 depending on the crisis and the responses of the central bank.