



TAKARÉK MORTGAGE CO PLC

GENERAL SHAREHOLDERS' MEETING

BUDAPEST

28 APRIL 2020

**ANNOUNCEMENT
ON INVITATION TO ANNUAL GENERAL MEETING**

Takarék Mortgage Bank Co Plc. (registered seat: H-1117 Budapest, Magyar Tudósok körútja 9. G épület.; registration No.: 01-10-043638; registered by the Metropolitan Court as Court of Registration; hereinafter referred to as Company) hereby, in accordance with its legal obligation, informs the shareholders and the investors of the Company, that the Board of Directors of the Company passed the respective resolution on 24 March 2020 on calling the Annual Regular General Shareholder's Meeting (hereinafter referred to as General Meeting) of the Company.

The Board of Directors hereby calls the General Meeting as follows:

Date and time of the General Meeting:

28 April 2020 (Tuesday), 10.00 a.m. CET.

Registration for the General Meeting starts at 8.00 a.m. CET. 28 April 2020 (Tuesday)

Venue of the General Meeting:

The seat of the Company:

Infopark G. épület

1117 Budapest, Magyar Tudósok körútja 9.

Agenda of the General Meeting:

1. Report of the Board of Directors on the business activities, financial position, business policy and management of the Company in the year 2019 including the business report, and financial statement in accordance with the International Financial Reporting Standards (IFRS) (separate); The business report and financial statements in accordance with the International Financial Reporting Standards (IFRS) (consolidated); decision on the usage of Net Earnings After Tax; Report of the Supervisory Board on the financial reports of the Company on the year 2019 in accordance with Hungarian accounting standards and International Financial Reporting Standards (IFRS) (separate and consolidated); Report of the Auditor Committee on the financial reports of the Company on the year 2018 in accordance with Hungarian accounting standards and International Financial Reporting Standards (IFRS) (separate and consolidated); The External Auditor's Report on the financial statements of the Company for the year 2019, in accordance with Hungarian accounting rules and International Financial Reporting Standards (IFRS) (separate and consolidated); Decision on the business report and financial statements in accordance with the International Financial Reporting Standards (IFRS) (separate); and Decision on the business report and financial statements in accordance with the International Financial Reporting Standards (IFRS) (consolidated)
2. Decision on the granting of discharge of liability for the executive officers considering the suitability of their activity performed in the business year of 2019
3. Election and decision on the remuneration of the auditor
4. Acceptance of the Report on Corporate Governance
5. Recall of the member (s) of the Board of Directors and the election of a new Board member (s)
6. Recall of the member (s) of the Supervisory Board and the election of a new Supervisory Board member (s)
7. Recall of the member (s) of the Audit Committee and the election of a new member (s) of the Audit Committee
8. Amendment of the Statutes of the Company
9. Approval of the Supervisory Board's Amended Rules of Procedure
10. Authorization of the Board of Directors to acquire own shares (in Hungarian: „saját részvény”)
11. Miscellaneous

Method of holding the General Meeting

The General Meeting will be held with the direct attendance of the shareholders.

Requirements for participation in the General Meeting and exercising voting rights

- A Pursuant to Article 12.1 of the Statutes of the Company, each Series “A” ordinary share of a face value of HUF 100 (say One hundred Hungarian forints) shall give right to one vote, Series “B” dividend preference shares of a face value of HUF 100 (say One hundred Hungarian forints) shall not give right to vote, and each Series “C” ordinary share of a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes at the General Meeting.
- B Each shareholder can exercise his/her shareholder’s rights attached to the respective shares on the General Meeting only in case he/she is the owner of the shares on the effective date of the identification procedure (in Hungarian: „tulajdonosi megfeleltetés”), as specified in Act V of 2013 on Civil Code (hereinafter referred to as Civil Code) and Act CXX of 2001 on Capital Markets (hereinafter referred to as Capital Markets Act) and in the Rules of the KELER Ltd., and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.
- C The Company requests KELER Ltd. to conduct an identification procedure on the date of the General Meeting as a corporate event. The effective date of the identification procedure will be **21 April 2020**, while the closing time of the register of shareholders is **18.00 p.m. on 24 April 2020** CET. Rules of the identification procedure are set out in the up-to-date version of the internal general regulations of KELER Ltd.
- D The Company deletes all effective data being registered in the register of shareholders on the date of the identification procedure, and simultaneously it registers the data into the register of the shareholders according to the result of the identification procedure, then the Company closes the register of the shareholders on the 2nd day preceding the General Meeting. After the closure of the register of the shareholders, data affecting the ownership rights of a shareholder can be registered into the register of shareholders only on the successive working day of the closure of the General Meeting, at the earliest.
- E The closure of the register of shareholders does not limit the right of any shareholder being entered therein to transfer his/her shares after such closure. Alienation of shares before the day of opening of the General Meeting does not exclude the right of the respective shareholder registered in the register of the shareholders to participate at the General Meeting and to exercise his/her rights attached to his/her shares.
- F Each shareholder registered in the Company’s register of shareholder on the effective day of the identification procedure may exercise the rights personally or by proxy (through a representative) or through a nominee under the Civil Code and the Capital Markets Act. Any member of the Board of Directors, any member of the Supervisory Board and any senior employee of the Company may be representative only in case he/she is instructed as representative by an unambiguous written instruction on voting on each proposal for resolution given by the respective shareholder. The Auditor and the Coverage Supervisor of the Company may not be authorized representatives. The authorization for representation shall be valid for one general meeting, or for a definite term not exceeding 12 (twelve) months. The authorization for representation will remain valid for the continued General Meeting in case of suspension and for a General Meeting called repeatedly due to a lack of quorum. The authorization shall be submitted to the Company in the form of notarial deed or private deed with full probative effect. In case of shareholders other than natural persons, powers of representation of the person(s) signing the power of attorney or representing the shareholder at the general meeting shall be certified by the presentation of appropriate original documents issued by a public register or authority (e.g. certificate of incorporation) and by an original version or by a copy certified by a public notary of an authentic statement of signature (certified by a notarial act of a public notary) or a signature specimen countersigned by an attorney-at-law. If the certification of the power of representation is prepared in any language other than Hungarian a certified Hungarian translation thereof shall be attached. The shareholder may also appoint a proxy to represent him/her at the General Meeting by returning the form as contained in Annex 1 or Annex 2 of the Statutes of the Company and sent – in case of expressed request of the shareholder - by the Company electronically or by mail. The form shall be returned to the Company as a private deed with full probative effect not later than the end of the working day preceding the day of

the General Meeting. In case such authorization is made abroad, the form of the authorization is to be complied with legal regulations on certification or re-certification of documents made abroad.

- G Each shareholder has the right to participate in, request information and to make remarks on the General Meeting. Shareholders are entitled to attend the General Meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If shareholders who hold at least one percent of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within eight days after publishing the announcement of calling the General Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda.
- H Provided that the requirements of attending the General Meeting and exercising of voting rights are met, the shareholder or his/her authorized representative may request the electronic or other device for casting votes on the venue of the General Meeting, after proving his/her identity and signing the attendance sheet.

Quorum;

Venue and Date of the Repeated General Meeting in case of being inquorate

Pursuant to article 11.8 of the Statutes, the General Meeting shall have a quorum if the attended shareholders represent more than half of the votes of the voting shares. If the General Meeting does not have a quorum, the Company will hold the repeated General Meeting convened by the present Announcement on the venue of the original General Meeting on **12 May 2020 (Tuesday) at 10.00 a.m. CET**. The repeated general meeting shall have a quorum in respect of the items of the agenda of the original General Meeting, regardless of the number of attendees. Separate registration is required for the repeated General Meeting, which starts at **12 May 2020 at 8.00 a.m. CET**.

Disclosure of written materials and proposals for resolutions for the General Meeting

The Board of Directors of the Company will publish a report under the Accounting Act, and the material data of the reports of the Board of Directors and the Supervisory Board, summaries of the shares and voting rights existing at the time of the convocation (including separate summaries for each share class), summary of proposals related to the items on the agenda and resolutions, proposals and forms to be used for voting by representative (if they were not sent directly to shareholders) in accordance with the provisions of the Articles of Association concerning the publication of the Company's announcements - the electronic publication of the Company's official website (www.takarek.hu) and the Hungarian Central Bank (www.kozzetetelek.hu) and the official website of the Budapest Stock Exchange (www.bse.hu) - the General Meeting publish it in Hungarian and English at least 21 (twenty-one) days in advance. Subsequently, written submissions and draft resolutions related to the items on the agenda of the General Meeting will be available at the headquarters of the Company and at the central customer service of KELER Ltd. (H-1074 Budapest, Rákóczi út 70-72, R-70 Office Building).

TAKARÉK Mortgage Bank Co Plc.



ANNUAL GENERAL MEETING

Agenda Item No. 1.

For the financial year ended 2019:

- a. In accordance with the Hungarian Accounting Standards
 - i. Acceptance of the Business Report
 - ii. Acceptance of the Annual Financial Statements (Balance sheet, Statement of Profit and Loss, Supplementary Notes)
 - iii. Proposal for the allocation of the profit after taxation

- b. In accordance with the International Financial Reporting Standards (consolidated)
 - i. Acceptance of the business report
 - ii. Acceptance of the financial statement

PROPOSAL FOR RESOLUTION

a.i. The Annual General Meeting accepts the Company's Business Report in accordance with Act of Accounting for the year ended 2019.

a.ii The Annual General Meeting accepts the Company's financial statement (Balance sheet, Statement of Profit and Loss, Supplementary Notes) in accordance with Act of Accounting for year ended 2019.

- Total Assets HUF 342.897 million
- Profit After Tax HUF 2.446 million
- Net profit for the year HUF 2.140 million

a.iii The Annual General Meeting accepts the proposal for the allocation for the profit after taxation:

Shares – Series “A” for financial year ended 2019 no dividend is declared

Shares – Series “B” for financial year ended 2019 no dividend is declared

Shares – Series “C” for financial year ended 2019 no dividend is declared

Net profit for year ended 2019 is allocated to retained earnings.

b.i The Annual General Meeting accepts the Company's Business Report in accordance with the International Financial Reporting Standards for the year ended 2019.

b.ii The Annual General Meeting accepts the Company's consolidated financial statement in accordance with the International Financial Reporting Standards (Statement of Financial Position, Statement of Comprehensive Income, Notes)

The Annual General Meeting determines the financial statement with:

- Total Assets HUF 342.897 million



TAKARÉK MORTGAGE BANK PLC.

**BUSINESS REPORT FOR 2019
ACCORDING TO IFRS**

Budapest, March 31, 2020

A handwritten signature in blue ink, appearing to be "G. Nagy", written over a light blue grid background.

dr. Gyula László Nagy
Chief Executive Officer

A handwritten signature in blue ink, appearing to be "A. Mészáros", written over a light blue grid background.

Attila Mészáros
Deputy General Manager



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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

1.1 TAKARÉK MORTGAGE BANK PLC.

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

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

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

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

Ownership structure of Takarék Mortgage Bank Plc.:

Shareholder	31 December 2018		31 December 2019	
	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares listed on BSE (Series “A”)				
Domestic institutional investors	52.56	57,069,304	52.80	57,285,447
Foreign institutional investors	0.02	20,576	0.02	22,224
Domestic private investors	3.47	3,759,643	3.31	3,594,103
Foreign private investors	0.06	60,400	0.01	12,410
Employees, directors and senior management	0.00	-	0.00	-
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	4.45	4,832,225	4.45	4,832,225
Other	0.00	4,261	0.00	-
<i>Subtotal</i>	<i>60.80</i>	<i>66,000,010</i>	<i>60.82</i>	<i>66,000,010</i>
Dividend preference not listed on BSE (Series “B”)				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
<i>Subtotal</i>	<i>13.05</i>	<i>14,163,430</i>	<i>13.05</i>	<i>14,163,430</i>
Ordinary shares not listed on BSE (Series “C”)				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
<i>Subtotal</i>	<i>26.11</i>	<i>2,832,686</i>	<i>26.11</i>	<i>2,832,686</i>
Total	99.96	82,996,126	99.98	82,996,126

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

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

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

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

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

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

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

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

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

Following the end-2017 sale of most of its ownership shares, the only direct ownership of the Bank was the one in the Commercial Bank. This was kept up until October 29, 2019, when this 51% ownership share was fully sold to MTB.

1.2 TAKARÉK COMMERCIAL BANK LTD.

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

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

In September 2014, the Bank and Magyar Posta Zrt. entered into contract on the purchase (by the latter) of ordinary shares representing 49% of the share capital of the Commercial Bank. Before the transaction, the general meeting of the Commercial Bank Ltd. decided on a capital increase of approximately HUF 20 billion. This was registered on October 1, 2014.

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

As the large commercial bank of the Integration, the Commercial Bank represents the TakaréK Group as a prestigious financial institution, competing with large banks in Budapest and cities with higher population; it closed its operations in smaller settlements in 2017. The Commercial Bank ceased to provide investment services on its own account from December 18, 2017. It continues to serve its previous clients through its network as an agent of MTB. The management of client accounts and portfolios were taken over by MTB.

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

2 THE MACROECONOMIC ENVIRONMENT IN 2019

2.1 THE HUNGARIAN ECONOMY IN 2019¹

Indicator	2017	2018	2019
Real GDP growth	4.3%	5.1%	4.9%
Industrial output growth	4.6%	3.5%	5.4%
Average annual rate of inflation	2.3%	2.8%	3.3%
Average annual rate of unemployment	4.2%	3.7%	3.4%
ESA-based budget balance (relative to GDP)*	-2.4%	-2.3%	-1.7%
Net external financing capacity (relative to GDP)*	3.1%	2.1%	1.7%
Base rate (end-of-year)	0.90%	0.90%	0.90%
EUR-HUF exchange rate (end-of-year)	310.14	321.51	330.52

*Estimate for 2019

Sources: KSH, MNB, NGM

The external environment – at least in terms of the real economy – was less supportive for Hungary's economy in 2019 than a year before. GDP growth slowed worldwide, but it was particularly the case in the European Union, within this

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

Germany, Hungary's most important trading partner. However, as a reaction to the economic slowdown and strengthening geopolitical risks, the policy bias of major central banks, which back in 2018 was obviously tightening, changed to the opposite in 2019. On the other side of the Atlantic, the Fed, which in 2018 raised the fed funds rate by altogether 100bps in four steps, in fact cut this rate by 75bps last year in three steps to arrest the slowdown in the economy. ECB was already unable to tighten back in 2018, so it had much lesser space to ease conditions through policy rates last year, the only such step was the 10bp cut (to -0.5%) of the deposit rate.

Despite the slowdown in the external environment the Hungarian economy could retain its strong growth dynamics: from 5.1% in 2018 GDP-growth hardly slowed to 4.9% in 2019. The robust growth rate was driven mostly by gross fixed capital formation expanding at double-digit rates for the third consecutive year, and also private consumption that was supported by 8% growth in real wages and continued improvements in the labour market (employment increased by another 1% and the number of employees exceeded 4.5 million at the end of 2019). From the production side market services sector - reflecting the upturn in domestic demand – contributed markedly to growth, and the construction sector had a strong year again, while industrial production also picked up from 2018. The strong increase in domestic demand, maintained faster import than export growth, nevertheless the trade surplus was still healthy enough, yet somewhat narrower than a year before.

Alongside strong growth performance both internal and external balances remained on a favourable path. The budget deficit in ESA-terms likely remained below 2% of GDP, while public debt relative to GDP may have decreased by another 2 percentage points, thus remained on a downward path for the eighth successive year and sank comfortably below 70%. Developments also remained encouraging with respect to the evolution of external balances: similarly to 2017 the net external financing capacity of the Hungarian economy remained positive for the eleventh year running. Although the surplus of the current account is no a decreasing trend, and declined to below 2% of GDP last year, it was still enough to slash net foreign debt further, which thus stood at just 7% of GDP at the end of 2019.

The 12-month rate of headline CPI inflation was more volatile in 2019 than in the previous years (fluctuating between 2.7% and 4%), with average annual inflation reaching 3.3%. By the end of the year even core inflation stabilized at the upper edge of the central bank's tolerance band (4%), however, filtering out the impact of indirect taxes and looking ahead the central bank is unlikely to see reasons to meaningfully tighten monetary conditions. Yet, the soft conditions upheld throughout 2019 made the Forint an underperformer among regional currencies with the Hungarian local currency hitting new all-time lows against the Euro. True, in early 2019 two rating agencies improved its grade on Hungary's long-term debt, which lent some support to the Forint, but since Forint denominated assets bear the lowest real interest rates (at the same time funding in Forint is the cheapest) in the region, the currency remained on a downward slide even despite the strong performance of the real economy.

The number of newly built dwellings in 2019 increased by 19.5% compared to 2018, but following a 3% fall in 2018, the number of new building permits fell another 4.3% last year. The decline mostly affected towns in the countryside, whereas Budapest even faced a growing number of building permits. The 19.5% growth in the number of newly built dwellings means that 21,127 flats were reported as new last year compared to 17,681 flats in 2018. Budapest clearly was the driving force behind these developments, since the annual growth rate exceeded 50%, while cities in the countryside that were the leading force of residential real estate markets in the previous years, saw their growth rates slow down considerably. Of the newly built 21,127 flats 58% was constructed by entrepreneurs whereas 42% by private persons, which is an increase in the case of the former, but a heavy decrease in the case of the latter.

2.2 THE BANKING SECTOR IN 2019²

The total assets of the banking sector amounted to HUF 43,497 billion at the end of 2019, up 10.2% from HUF 39,459 billion a year before. According to non-audited preliminary figures the combined pre-tax profit of the banking sector

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

reached HUF 550 billion last year, almost exactly HUF 30 billion below last year's figure, but it was expected in the wake of much smaller net income from de-provisioning, as well as a continued increase in operating expenditures. The stock of net credit of the banking sector increased by 15.4% in 2019 and reached HUF 23,331 billion at the end of the year. Within this household credit increased by 18.1%, while the non-financial corporate sector was up by 12.2%.

5.2% of the stock of Forint denominated household credits were in a 90+ day arrear at the end of last year, while the share of non-performing loans was 6.8%. Both figures show significant decrease compared to end-2018 figures, which were 7.4% and 9.9% respectively. In the case of the non-financial corporate sector only 2% of their credit was in a 90+ day arrear, which is a marked decrease compared to 2.8% prevailing at the end of 2018.

The share of client deposits within total liabilities increased to 56% in 2019, its volume reached HUF 24,360 billion. 38.7% of this stock was owned by households, whereas 38.5% by the non-financial corporate sector.

2.2.1 Disbursement of household mortgage loans

The disbursement of new mortgage loans went up from a monthly HUF 60 to HUF 90 billion in the first half of 2019, before moderating in the wake of the introduction of the Waiting for Baby loan facility. Following the first wave of applicants for the latter, the monthly volume of new mortgage credit disbursements rose again to the HUF 80 to 90 billion range. The total annual disbursement finally reached HUF 979 billion, up 7% from 2018's HUF 915 billion. Both in the home equity loan segment, and the mortgage-backed general purpose loan segment the annual growth of disbursements was 7% compared to 2018.

2.2.2 Stock of household mortgage loans

The stock of household mortgage loans stood at HUF 4,526 billion at the end of 2019 according to the central bank's data release. This represents HUF 164 billion increment (+3.8%) over end-2018's HUF 4,363 billion stock. Within this it was home equity loans that drove the increase: from HUF 3,341 billion at the end of 2018 the stock increased to HUF 3,641 billion (up 9%) by the end of 2019. Meanwhile, the stock of mortgage-backed general purpose loans decreased by HUF 136 billion during 2019, and hence the outstanding stock was HUF 885 billion at the end of last year. The share of foreign currency denominated loans within total mortgage loans was less than 0.2%.

2.2.3 The market of mortgage bonds

In the course of 2019 the face value of the stock of mortgage bonds issued by the five mortgage banks residing in Hungary increased by HUF 61 billion, which implies 5% growth, and thus the end-year stock was close to HUF 1,280 billion at face value. The much higher growth in 2018 was due to the active presence of the central bank in the market segment; indeed, the central bank purchased HUF 300 billion mortgage bonds in net terms during 2018. However, in 2019 the program was no more in effect, and while the Mortgage Adequacy Financig Ratio was raised from 20% to 25% last year, banks made pre-arrangements for meeting the new limit already in 2018, and thus there was no need on their side to issue new series in 2019 (the market leader OTP Mortgage Bank for example had no mortgage bond issuance at all last year).

3 REPORT ON BUSINESS ACTIVITIES

In the course of 2018-2019 the Bank underwent radical structural, major operational and thorough ownership changes, which obviously markedly impacted the Bank's business and financial activities, the development of its balance sheet and profitability.

The Bank's balance sheet was cleared from the assets and liabilities of the Commercial Bank, which was previously 51% owned by the Bank. Due to this, the consolidated balance sheet of the Bank markedly contracted. Profit/Loss figures also reflect the major changes in activity profile and operational structure, which resulted in significantly weaker profits in 2019 than a year before. Hence, it is only from next year that major balance sheet and P&L items can be directly compared across consecutive calendar years.

3.1 MAJOR FINANCIAL INDICATORS (IFRS, NON-CONSOLIDATED FIGURES)

The total assets of the Bank increased by HUF 9.1 billion (up 2.7%) in 2019, and by the end of the year its volume reached HUF 342.9 billion. Pre-tax profit, down significantly from 2018, amounted to HUF 2,446 million, while profit for the year reached HUF 2,140 million. The total comprehensive income for the year was HUF 2,858 million, markedly down from the preceding year's HUF 4,574 million.

HUF million	December 31, 2019	December 31, 2018	Change
Balance sheet total	342,897	333,787	2.7%
Financial assets valued at amortized costs	294,526	256,012	15.0%
o/w gross loans	275,801	246,407	11.9%
Financial liabilities valued at amortized costs	269,895	262,393	2.9%
o/w debt-type securities issued	265,929	247,797	7.3%
Equity	65,043	62,185	4.6%
Profit/Loss before tax	2,446	4,921	-50.3%
Full-year profit/loss	2,140	4,680	-54.3%
Total comprehensive income	2,858	4,574	-37.5%
ROAA (return on average assets, %)	0.6%	1.5%	-0.8%-pt
ROAE (return on average equity, %)	3.4%	7.8%	-4.4%-pt

3.2 LENDING

The Bank discontinued extending new loans as of April, 2018. Yet, the existing portfolio remains in the Bank's books until full expiry. Lending activity from the second quarter of 2018 is provided by the Commercial Bank, which merged into the new Takarékbank at the end of October. From Q2 2018 the Bank is only active in the refinancing segment, and thus its still existing client loans are gradually reduced due to natural amortization and successful workout process.

The stock of the Bank's earlier disbursed loans was HUF 58.6 billion at the end of 2019, down 23% from end-2018's HUF 77.1 billion. This is almost 100% household loan, as corporate loans decreased to just HUF 9 million by end-2019 from HUF 7.1 billion back at the end of 2018. Bulk of the household loan portfolio is mortgage loan, which secures 1.1% market share for the Bank in this segment (down from 1.4% prevailing in 2018).

3.3 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, and using the funds thus required it refinances the mortgage debt portfolios of partners within the TakaréK group and also that of external partners. Within the TakaréK Group the Bank is a special entity: it is able to raise funds in the form of mortgage bonds issuances either at domestic or external financial markets. With regard to the latter, it is able to secure foreign currency financing for corporate lending.

In its strategy the Bank puts special emphasis on cooperating with external partners. It strives to become an attractive alternative for banks and banking groups that are involved in extending mortgage loans but do not have own mortgage bank licence and thus need refinancing. The stock of refinancing loans extended by the Bank went up by HUF 47.7 billion (or 28.2%) in 2019 and their volume at the end of the year was HUF 217 billion.

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank had HUF 312.5 billion classified assets, HUF 0.54 billion contingent liabilities (altogether HUF 313.07 billion) in its books as of December 31, 2019.

Claims on clients amounted to HUF 58.8 billion, moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 0.54 billion (0.17%) at the end of 2019. Of these 779 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.784 billion in claims and HUF 4 million as commitments with HUF 0.57 billion in impairments and provisions. HUF 55.8 billion claim and HUF 0.54 billion commitment was classified as Stage 1 and Stage 2 categories, with HUF 0.42 billion in impairments and provisions.

The share of problem free (Stage 1 and Stage 2) loans was 95.28% as of December 31, 2018, consequently the share of Stage 3 loans was 4.72%.

Average impairment considerably decreased both in the entire (excl. swaps) portfolio (0.32%) and the loan portfolio (1.66%) compared to end-2018.

3.5 SECURITIES ISSUES

As a result of capital market transactions in 2019 the Bank raised HUF 59.7 billion in new funds, exclusively in the form of mortgage bonds. This volume was raised through 15 issuances, all of which two took place through auctions at the stock exchange. In each issuance the entire spectrum of the Bank's dealers were involved. On the course of the transactions three different series of mortgage bonds were put into circulation with both fixed and variable coupons, maturities of 5 to 10-years, denominated in HUF only. The TJ24NV01 variable coupon series was the most frequently issued; it was put up for auction eight times in 2019. The third quarter was the most active with respect to issue volumes: HUF 33.5 billion was sold to investors in that period.

Alongside strong issuance activity the Bank also performed repurchases throughout 2019. In October the Bank repurchased HUF 20 billion of the variable rate bond it issued in March 2018 from the then still independently existing Commercial Bank. Besides this transaction, the Bank made repurchases of mortgage bonds affecting three earlier issued series. The volume of these repurchase transactions was HUF 500 million and EUR 4.3 million.

Three series of mortgage bonds expiring in 2019 totalled HUF 13.6 billion, and HUF 5.1 billion of uncovered bonds also expired last year. With the latter, there remained no more uncovered bonds among the Bank's still outstanding issuances.

In accordance with the relevant statutory provisions the Bank continues to keep a stricter mortgage bond coverage ratio. Accordingly, the aggregate amount of ordinary collateral (net of impairment losses) plus supplementary collateral each

day exceeded the aggregate nominal value of outstanding mortgage bonds in circulation. The same adequacy rule also prevailed with respect to interest-to-interest.

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

The net value of real estate collateral covering mortgage bonds issued by the Bank was HUF 309.3 billion as of December 31, 2019, 12.9% above the figure prevailing at December 31, 2018 (HUF 269.3 billion).

Value of mortgage bonds and assets involved as collateral

HUF million	December 31, 2019	December 31, 2018	Change
Outstanding mortgage bonds in circulation			
Face value	226,746	222,451	19.9%
Interest	30,956	32,607	-5.0%
Total	297,702	255,058	16.7%
Value of ordinary collateral			
Principal	252,187	222,731	13.2%
Interest	57,136	46,533	22.8%
Total	309,323	269,264	14.9%
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	45,552	32,676*	39.4%
Mortgage bonds	-	3,575*	-
Total	45,552	36,251*	25.6%

* The volume of interest was not indicated in the value of the substitute collaterals in 2018, but the calculation has been adjusted in the 2019 Business Report. The reason behind it was twofold, first the register and the accounting system of the substitute collaterals changed, (Inforex instead of Bankmaster) and consequently there was an adjustment in the interest calculation: the volume of the interest increased, secondly in the quarterly mandatory disclosure the Bank is always indicating the interest of the substitute collateral.

As of 31 December 2019, the present value of ordinary and supplementary collateral was HUF 313.8 billion and the present value of mortgage bonds was HUF 287.9 billion, thus the present value of collateral exceeded significantly that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 108.99%.

The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 110.35%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 195.52% as of December 31, 2019.

3.6 BALANCE SHEET DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

As of 31 December 2019, the Bank's balance sheet total according to non-consolidated IFRS figures amounted to HUF 342.9 billion, an increase of 2.7% compared to a year before. On the assets side it was mainly an increase in financial assets valued at amortized costs (within this the stock of loans) that explain the growth in total assets. The volume of loans increased by HUF 31.5 billion in 2019 and reached HUF 275.8 billion at the end of the period. On the liabilities side the HUF 18.1 billion growth in the stock of issued securities was instrumental, but the HUF 2.9 billion increase in shareholders' equity also played role.

in HUF million	December 31, 2019	December 31, 2018	Change
Cash, claims on central bank and other sight deposits	1,070	1,314	-18.6%
Financial assets held with trading purposes	175	2,876	-93.9%
Financial assets at fair value through other comprehensive income	43,734	39,305	11.3%
Financial assets at amortized costs	294,526	256,012	15.0%
Financial derivatives - assets	2,676	0	-
Investments into affiliated and incorporated companies	0	31,978	-
Tangible assets	157	249	-36.9%
Goodwill and other intangible assets	241	383	-37.1%
Deferred tax assets	0	218	-
Other assets	318	1,452	-78.1%
Total assets	342,897	333,787	2.7%
Financial liabilities held with trading purposes	136	831	-83.6%
Financial liabilities at fair value through profit and loss	6,552	7,437	-11.9%
Financial assets at amortized costs	269,895	262,393	2.9%
Financial derivatives - liabilities	288	0	-
Provisions	509	572	-11.0%
Deferred tax liability	93	14	-84.9%
Other liabilities	381	355	7.3%
Total liabilities	277,854	271,602	2.3%
Share capital	10,849	10,849	0.0%
Paid-in capital on top of face value	27,926	27,926	0.0%
Accumulated other comprehensive income	992	274	262.0%
Accumulated profit reserve	22,416	17,951	24.9%
Other reserves	927	712	30.2%
Treasury shares	-207	-207	0.0%
Full-year profit/loss	2,140	4,680	-54.3%
Total shareholders' equity	65,043	62,185	4.6%
Total liabilities and shareholders' equity	342,897	333,787	2.7%

3.6.1 Financial assets at fair value through other comprehensive income

The value of financial assets at fair value through other comprehensive income was HUF 43.7 billion at the end of 2019, 11.3% higher than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

The change in the stock of debt-type securities is mostly explained by changes to the stock of government securities and bonds issued by credit institutions. The former was up HUF 11.4 billion, the latter by HUF 10 billion compared to end-2018.

3.6.2 Financial assets valued at amortized costs

The volume of financial assets valued at amortized costs increased by 15% in 2019, thus the volume amounted to HUF 294.5 billion by the end of the period.

Within this the stock of gross loans increased by 12.9%, rising to HUF 275.8 billion by the end of the year. The stock of interbank deposits and claims on central bank increased from HUF 12.5 to HUF 17.4 billion, which is 39.3% growth in one year.

3.6.3 Investments into affiliated companies, joint ventures and incorporated companies

At the start of 2019 the Bank had only one affiliated company remaining: the Commercial Bank. The 51% ownership of the Bank in this entity meant a net worth of HUF 31.9 billion at the end of 2018. In November 2019 the Commercial Bank merged into Takarékbank, the large universal credit institution that unifies all commercial banking activities within the Takaré Group apart from the mortgage bank function. As a result of this transaction, the value of the Bank's investments into affiliated companies, joint ventures and incorporated companies reduced to zero by the end of 2019.

3.6.4 Financial liabilities valued at amortized costs

Financial liabilities valued at amortized costs take up 78.7% of the Bank's total liabilities. Their volume at the end of 2019 was 2.9% higher than a year before, thus reaching HUF 269.9 billion. Within this debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing the mortgage debt portfolio, represent the highest share. The nominal value of mortgage bonds in circulation was HUF 265.9 billion at the end of 2019, up 7.3% from 2018.

3.6.5 Equity, capital adequacy

The shareholders' equity was HUF 65 billion at the end of 2019, up HUF 2.9bn from 2018. The prudential requirement on capital adequacy should be interpreted in the Takaré Group's context. The Group level capital adequacy requirement was met at the end of 2019.

3.6.6 Off balance sheet items

The value of off balance sheet contingent liabilities was HUF 18.2 billion at the end of 2019, 11.7% higher than a year before. Within this the decisive item is the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners, which stood at HUF 18.1 billion at the end of 2019 (HUF 15.7 billion at end-2018).

3.7 PROFIT & LOSS DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

HUF million	2019	2018	Change (%)
Interest income	10,261	11,087	-7.5%
Interest expense	-7,698	-8,385	-8.2%
Net interest income	2,563	2,702	-5.1%
Fee and commission income	591	610	-3.1%
Fee and commission expense	-436	-1,449	-69.9%
Net fee and commission income	155	-839	-
Dividend income	0	234	-
Forex transactions	-10	4	-
Profit/Loss on derecognition of financial assets and liabilities not valued at fair value through profit and loss	423	3,002	-85.9%
Profit on financial assets and liabilities held for trading purposes	2,319	1,526	52.0%
Losses arising from hedging operations	-913	0	-
Profit/Loss on financial assets and liabilities at fair value through profit and loss	147	156	-5.8%
Net trading result	1,966	4,922	-60.1%
Profit/Loss on derecognition of non-financial assets	41	22	86.4%
Net other operating revenue	787	1,078	-27.0%
Net other operating expense	-8	-12	-33.3%
Operating income	5,504	7,873	-30.1%
Provisioning and deprovisioning	14	633	-97.8%
Net depreciation of financial assets and liabilities not valued at fair value through profit and loss	380	412	-7.8%
Net depreciation of non-financial assets	-121	-3	-
Operating costs	-3,337	-3,994	-16.4%
Profit/Loss on reclassification	6	0	-
Profit/Loss before tax	2,246	4,921	-50.3%
Income tax	-306	-241	27.0%
Profit/Loss for the period	2,140	4,680	-54.3%
Other comprehensive income	718	-106	-
Items not reclassifiable as income	9	0	-
Items reclassifiable as income	709	-106	-
Hedging instruments	-186	0	-
Debt-type instruments at fair value through other comprehensive income	895	-116	-
Corporate tax on items reclassifiable as income	0	10	-
Total comprehensive income	2,858	4,574	-37.5%

The Bank's pre-tax profit was HUF 2.4 billion in 2019, significantly short of 2018's HUF 4.9 billion (-50.3%). The developments in the Bank's P&L structure were markedly impacted by the major change in the Bank's business strategy, whereby the Bank's activity was reduced to exclusively refinance partner banks. On top of this, the clearing of the balance sheet from financial assets and liabilities at fair value through profit and loss also contributed to the smaller profit, although it was the consequence of retaining pure mortgage banking profile only. Full-year profit was HUF 2.1 billion in 2019 (down from 2018's 4.7 billion). Total comprehensive income also remained below that of 2018: it amounted to HUF 2.9 billion as opposed to HUF 4.6 billion a year earlier.

3.7.1 Net interest income

Net interest income was HUF 2.6 billion in 2019 as a result of HUF 10.3 billion in income (down 7.5% from 2018) and HUF 7.7 billion in expenses (down 8.2% from 2018). In sum, net interest income was HUF 139 million (5.1%) lower in 2019 than in the preceding year.

With respect to interest income the HUF 1.2 billion decrease in the volume of financial assets valued at amortized costs and the HUF 1.1 billion increase in the case of derivative deals were the most decisive factors.

Interest expenses were 8.2% lower in 2019 than in 2018. Within this financial liabilities valued at amortized costs has the decisive role: its volume was HUF 6.7 billion in 2019, HUF 728 million short of the preceding year's one.

3.7.2 Net fees and commissions

In 2019 the Bank achieved a positive balance of HUF 155 million on commissions and fees as opposed to HUF 839 million loss back in 2018. Income from fees and commissions reached HUF 591 million (down 3.1% from 2018), while expenses amounted to HUF 436 million (down by a significant 705 from 2018's HUF 1,449 million).

3.7.3 Net trading result

In 2019 the balance of financial transactions showed HUF 2 billion profit, which is HUF 3 billion lower than a year before. This is mostly explained by a marked decline in the volume of both financial assets and liabilities valued at amortized costs.

3.7.4 Net operating income

The net operating income of the Bank amounted to HUF 5.5 billion in 2019, markedly below the preceding year's HUF 7.9 billion.

3.7.5 Operating expenses

Due to reduced activity in the wake of performing classic mortgage bank functions only, operating expenses decreased further in 2019. The HUF 3.3 billion cost level was down 16.4% from 2018. The largest reductions took place in general and administrative costs (-23.8%), personnel costs (-24.6%), sector-specific taxes (-51.3%) and consultancy fees (-62.7%).

HUF million	2019	2018	Change (%)
Personnel costs	315	418	-24.6%
Advertisements	127	2	-
General and administrative costs	773	1,015	-23.8%
Leasing fees	21	15	40.0%
Depreciation of tangible assets	120	121	-0.8%
Depreciation of intangible assets	36	42	-14.3%
Consultancy fees	285	764	-62.7%
Maintenance costs	836	851	-1.8%
Sector-specific tax on credit institutions	76	156	-51.3%
Other taxes and fees	192	182	5.5%
Insurance costs	8	10	-20.0%
IT costs	29	31	-6.5%
Fees for supervisory and other prudential activities	394	286	37.8%
Other non-specified costs	125	101	23.8%
Total costs	3,337	3,994	-16.4%

3.7.6 Impairment and loan losses

The net balance of impairment and loan losses was HUF 273 million in 2019.

3.7.7 Pre-tax profit

The Bank's pre-tax profit in 2019 was HUF 2.4 billion.

4 LIQUIDITY MANAGEMENT

In accordance with the special legal status of the Bank, the institution is not allowed to collect client deposits, thus among its liabilities the main components are mortgage bonds, other uncovered bonds and interbank liabilities. As a member of TakaréK Group the Bank covers its liquidity positions mostly against other entities within TakaréK Group. The Bank is entitled to cover its amount of refinanced and self-issued loans by mortgage bonds only to the extent of its capital, which can be taken into account in the coverage pool. Ensuring the necessary capital backing up mortgage debt, managing the actual excess coverage position and liquid assets needed to meet the liquidity buffers to ensure orderly future principal and interest payments on mortgage bonds are financed from uncovered liabilities.

Effective from March 28, 2019 the mortgage bonds issued by the Bank are rated by S&P Global (currently at BBB with stable outlook). On March 31, 2019 the Bank terminated its rating contract with Moody's Investor Services, which thus withdrew its rating on the Bank's mortgage bonds, as there was no more possibility for updating information necessary to evaluate/adjust the rating. Hence, the Bank's obligation of maintaining excess coverage and liquidity, which was necessary in order to confirm and maintain a valid rating from Moody's, was also abolished. From the second quarter of 2019 a new internal regulation was introduced, whereby the Bank maintains 2% excess coverage and 6-month liquidity buffer.

In this new regime, the liquidity need is primarily determined by the actual size of the above-mentioned 6-month liquidity buffer, which develops according to cash-flows on the Bank's own issued mortgage bonds expected on a six-month horizon.

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities were mostly influenced by the dynamic increase in the stock of refinanced loans, the active presence in the market of primary mortgage bond issuances (in order to secure the MFAR compliance of TakaréK Group), and also the liquidity that emerged in the wake of selling the Bank's ownership in the Commercial Bank.

The stock of refinancing loans increased by HUF 47.7 billion (+28.2%) in 2019 and reached HUF 217 billion by the end of the year. This growth led to an increase in the need for accumulating funds through the issuance of mortgage bonds.

The amount of mortgage bonds increased by close to 20% (HUF 44.3 billion) in the last year. From a face value of 222.5 billion at the end of 2018 the stock reached HUF 266.8 billion by the end of 2019. Throughout 2019, the Bank raised a total of HUF 59.7 billion in new funds exclusively in the form of mortgage bond issues, through stock market auctions and with the involvement of the entire distribution circle. The Mortgage Bank repurchased mortgage bonds with a total value of HUF 500 million and EUR 4.3 million three times in the entire 2019 year, while in 2019 a total nominal value of HUF 13.6 billion matured.

At the end of 2019, the outstanding amount of unsecured bonds issued by the Mortgage Bank was lower than the maturity date of the year. In the first quarter, the Bank repurchased the entire outstanding 20 billion HUF nominal amount of outstanding bonds.

The stock of interbank liabilities continued to decrease further and by the end of 2019, this means that almost the entire liability side of the Bank consists of mortgage bonds.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

The Bank must comply with the requirements of the Integration Organisation of Cooperative Credit Institution and of MTB (as the business management body of the Integration).

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

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

The Bank considers prudent risk management as a vital value.

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

5.2 CREDIT RISK

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

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

With respect to the corporate clientele the sector-specific limit system applied to corporate lending was instrumental in establishing risk taking directions to year 2019.

With respect to household lending risk taking directions were determined by lending procedures, rules for income recognition and related auxiliary documents and guides.

5.3 LIQUIDITY AND MATURITY RISK

Maintaining liquidity is an essential element of banking activity. The Bank maintains its liquidity by adjusting the maturity profile of its assets and liabilities. In the framework of asset and liability management (ALM) the Bank mitigates maturity risk through both the repurchase of the securities issued earlier and new issuances. At the same time, it applies maturity

transformation control by pre-defined limits in order to improve profitability, while maintaining solvency at all times. The Bank regularly reviews prepayments and early payment requests initiated by clients and takes into consideration their impact on managing market and liquidity risks.

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

5.4 EXCHANGE RATE RISK

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

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions are supportive to do so. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or accrued expenses and deferred charges in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

Operational risks are handled through the continuous improvement of internal regulations and procedures, the adequate training of employees and the enhancement of built-in control mechanisms. The senior management of the Bank regards feedbacks as an indispensable tool in managing operational risks. It is considered a very important aspect to monitor the effectiveness of measures taken in order to eliminate operational risks. About operational risk events and the results of operational risk monitoring there is a regular monthly report. In order to identify operational risks in time the Bank supports its employees by providing internal training.

The Bank collects and analyses loss data due to operational risk based on a system of Key Risk Indicators (KRI). The KRIs are reviewed each year, thus also in 2019 various KRIs were modified and new KRIs were defined as well. In order to improve the quality of these indicators, the operational risk division of the Bank holds expert meetings with those units that are responsible for the collection and processing of data, and they jointly decide on indicators and their critical levels/limits.

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

6 ORGANIZATION CHANGES AND HEADCOUNT

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

The Bank's full-time equivalent number of employees in 2019 was 14 (back in 2018 the number of employees was 36).

7 PROTECTION OF ENVIRONMENT

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

8 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

Under the label of other services and the preparation of a special report to the MNB the auditing company invoiced the Bank HUF 5.5 million in 2019.

9 POST BALANCE SHEET DATE EVENTS

The Bank (TMB) has won the Budapest Stock Exchange's BÉT Legek (BSE Bests) Award of Best Mortgage Bonds Issuer of the Year 2019 based on TMB's active capital market activity. The reason behind the decision is that the Bank issued nearly HUF 60 billion mortgage bonds in nominal value and listed them on the stock exchange. The Bank organized 15 public auctions on the BSE auction platform 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. The Bank, acting as a pure mortgage bank (ie. providing refinancing and issuing covered bonds) strives to issue mortgage bonds through regular auctions and to offer competitive assets to investors, and to provide adequate long-term funding for refinancing partners.

On February 28, 2020 S&P Global Ratings (Madrid) made a statement that it confirms the BBB rating on the Bank's mortgage bond issuance program and the already issued Forint and foreign currency denominated mortgage bond series, and subsequently improved the outlook from stable to positive. This is explained by the fact that S&P lifted the outlook (from stable to positive) on Hungary's sovereign debt rating as of February 14, 2020.

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) of the Index Manual - the exclusion of the shares of the Company 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.

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.

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

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
<i>Calculation of expected credit losses on loans assessed on portfolio-level</i>	
<p>(See Sections 17 of Notes to the Separate Financial Statements for the details)</p> <p>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.</p> <p>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.</p> <p>The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none"> - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. <p>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.</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none"> - 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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*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*

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.

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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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements*

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 subsidiaries, 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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




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
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 (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			
<i>Interest received</i>		10,261	11,087
<i>Interest paid</i>		(7,698)	(8,385)

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 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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 statements 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),

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

Notes to the Separate Financial Statements

- **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.

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

Notes to the Separate Financial Statements

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.

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Notes to the Separate Financial Statements**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.

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Notes to the Separate Financial Statements**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

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instruments that are not held for trading are classified as at equity instruments 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 a 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.

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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:

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- 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.

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- 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 lessee'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;

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- 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-

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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.

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Notes to the Separate Financial Statements**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.

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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 assets**

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.

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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 within '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.

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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 instruments 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 commissions when they relate and have to be included in the amortised cost model shall immediately be recognised in profit or loss.

Fees and commission 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 amortised 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.

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

Notes to the Separate Financial Statements

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.

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

Notes to the Separate Financial Statements

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)

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

Notes to the Separate Financial Statements**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.

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

Notes to the Separate Financial Statements
4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2019	2018
<i>Interest income</i>		
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
<i>Interest expense</i>		
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
5. FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
<i>Fee and commission income</i>		
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
<i>Fee and commission expense</i>		
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
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements*

Notes to the Separate Financial Statements
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
<i>Gains or (losses) on derecognition of non-financial assets, net</i>		
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
<i>Other operating income</i>		
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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
<i>Profit and loss before tax</i>	2 446	4 921
Calculated corporate income tax (9%)	(220)	(443)
Items modifying the Hungarian tax base	279	443
Unremunerative deferred tax because of change in business	(369)	(80)
IFRS adoption	0	(161)
Effect of other modifications	4	-
Total	(306)	(241)

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

Notes to the Separate Financial Statements
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 adoption	-	117	(117)	58	-
Effect of local business tax of IFRS adoption	-	-	-	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 adoption	(175)	-	(175)	(175)	-
Effect of local business tax of IFRS adoption	-	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 deferred tax position on a net basis.

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

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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
<i>from this: Discount government bonds</i>	-	12,410	16,822
<i>from this: Government bonds</i>	30,899	19,539	12,080
<i>from this: Credit institution bonds</i>	12,825	2,817	3,056
<i>from this: Mortgage bonds</i>	-	4,529	8,800
Total	43,734	39,305	40,768

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

Notes to the Separate Financial Statements

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
<i>from this: Due from banks</i>	216,985	169,286	132,190
<i>from this: Retail</i>	58,807	70,049	78,953
<i>from this: Corporate</i>	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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 historical 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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.

Notes to the Separate Financial Statements

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 recognise 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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, except 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
Reposessed 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

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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.

Notes to the Separate Financial Statements
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, provision 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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:

Shareholder	31 December 2019		31 December 2018	
	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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 investment 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.

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

	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

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Notes to the Separate Financial Statements**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 investment 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-cyclicity 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.

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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	-

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Notes to the Separate Financial Statements**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 (Szhity) 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 Szhity 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 Szhity the integration of cooperative financial institutions 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.

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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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 Committee

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.

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Notes to the Separate Financial Statements

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.

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

Notes to the Separate Financial Statements**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.

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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 occurs when:

- the obligation is more than 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 contract terms, for the clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

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

Notes to the Separate Financial Statements**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 entirety 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 counterparty, 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.

All figures in tables are in HUF million except otherwise noted

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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

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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.

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

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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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	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Corporate	9	-	-	-	9
<i>Investment grade</i>	9	-	-	-	9
<i>Default grade</i>	-	-	-	-	-
<i>Non-investment grade</i>	-	-	-	-	-
Local governments	1,303	-	12	-	1,315
<i>Investment grade</i>	1,303	-	-	-	1,303
<i>Default grade</i>	-	-	12	-	12
<i>Non-investment grade</i>	-	-	-	-	-
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

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

*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 Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected 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
<i>Investment grade</i>	181,786	-	-	-	181,786
Retail	60,165	6,026	3,858	-	70,049
<i>Investment grade</i>	57,870	5,577	-	-	63,447
<i>Default grade</i>	-	-	3,858	-	3,858
<i>Nem-befektetési besorolás</i>	2,295	449	-	-	2,744
Corporate	4,281	-	2,791	-	7,072
<i>Investment grade</i>	4,281	-	-	-	4,281
<i>Default grade</i>	-	-	2,791	-	2,791
Advances	188	-	3	-	191
<i>Investment grade</i>	188	-	-	-	188
<i>Default grade</i>	-	-	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

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

1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
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
<i>Investment grade</i>	144,193	-	-	-	144,193
Retail	70,900	725	7,328	-	78,953
<i>Investment grade</i>	70,900	725	44	-	71,669
<i>Default grade</i>	-	-	7,284	-	7,284
Corporate	7,404	-	1,676	-	9,080
<i>Investment grade</i>	7,404	-	-	-	7,404
<i>Default grade</i>	-	-	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

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Notes to the Separate Financial Statements
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

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Notes to the Separate Financial Statements
Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
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				
<i>Financial assets derecognised during the period other than write-offs</i>	-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

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Notes to the Separate Financial Statements

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

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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;

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

Notes to the Separate Financial Statements

- 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) rescheduling the repayment of the loan within original maturity, when the contractual terms after modification do not meet the definition of balloon/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.

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

Notes to the Separate Financial Statements
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 Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The table below shows the structure of the collaterals:

	31 December 2019	31 December 2018	1 January 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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.

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

Notes to the Separate Financial Statements

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 applies 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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
<i>from this: Mortgage bonds</i>	-	5,219	30,069	196,436	34,205	-	265,929
<i>from this: Bonds</i>	-	-	-	-	-	-	-
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
<i>from this: Mortgage bonds</i>	-	-	15,145	138,032	40,645	26 818	220,640
<i>from this: Bonds</i>	-	-	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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
<i>from this: Mortgage bonds</i>	-	2,264	24,264	146,151	5,802	-	178,481
<i>from this: Bonds</i>	-	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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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 subsidiaries, 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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.

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

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	Security 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 fund
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

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

Notes to the Separate Financial Statements

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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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 compre- hensive 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

*The full amount of dividend income 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 compre- hensive 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
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 accordance 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

1 January 2018	Notes	HAS	Effect of implementation 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
Provisions	g) h)	1,211	(5)	1,206
Other 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 earnings		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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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
Provisions	g) h)	557	15	572
Tax liabilities	e)	-	14	14
Other 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 earnings		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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

31 December 2018	Notes	HAS	Effect of im- plementation 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**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 commission 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 deferred tax assets and liabilities 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.

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

Notes to the Separate Financial Statements
34.2. Equity correlation table

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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 Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

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 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

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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
<i>Difference</i>	-	-	-

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
<i>Untied retained earnings available for the payment of dividends</i>	26,333	22,424	17,996

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

Notes to the Separate Financial Statements**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 activity. The reason behind the decision is that TMB 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 Company 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.

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



TAKARÉK MORTGAGE BANK PLC.

**CONSOLIDATED BUSINESS REPORT FOR 2019
ACCORDING TO IFRS**

Budapest, March 31, 2020

A handwritten signature in blue ink, appearing to read "G. Nagy", is written over a light blue grid background.

dr. Gyula László Nagy
Chief Executive Officer

A handwritten signature in blue ink, appearing to read "A. Mészáros", is written over a light blue grid background.

Attila Mészáros
Deputy General Manager



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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

1.1 TAKARÉK MORTGAGE BANK PLC.

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

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

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

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

Ownership structure of Takarék Mortgage Bank Plc.:

	31 December 2019		31 December 2018	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares (Series “A” listed)				
Domestic institutional investors	52.6	57,069,304	50.45	54,735,748
Foreign institutional investors	0.02	20,576	0.02	126,899
Domestic private investors	3.47	3,759,643	3.47	5,750,222
Foreign private investors	0.06	60,400	0.06	39,388
Employees, directors and senior management	0.0	-	0.0	-
Government held owner	4.46	4,832,225	4.46	4,832,225
Treasury shares	0.23	253,601	0.23	253,601
Other	0.0	4,261	0.23	250,410
Subtotal	60.84	66,000,010	60.84	66,000,010
Dividend preference shares (Series “B” non-listed)				
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 (Series “C” non-listed)				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Subtotal	26.11	2,832,686	26.11	2,832,686
	100.0	82,996,126	100.0	82,996,126

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

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

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

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

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

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

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

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

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

Following the end-2017 sale of most of its ownership shares, the only direct ownership of the Bank was the one in the Commercial Bank. This was kept up until October 29, 2019, when this 51% ownership share was fully sold to MTB.

1.2 TAKARÉK COMMERCIAL BANK LTD.

In line with the mid-term strategic plan for the years 2006-2010, the Board of Directors of the Bank decided to establish the Commercial Bank in February 2006. After receiving licence, banking operation started on December 5, 2006. In

2007, the Commercial Bank broadened its branch network and gradually took over the distribution of retail and corporate loans from the Bank and started funding activity by continuously developing account management and card services. In 2008 the Commercial Bank launched its SME business line, later in 2010 it started its investment services business line.

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

In September 2014, the Bank and Magyar Posta Zrt. entered into contract on the purchase (by the latter) of ordinary shares representing 49% of the share capital of the Commercial Bank. Before the transaction, the general meeting of the Commercial Bank Ltd. decided on a capital increase of approximately HUF 20 billion. This was registered on October 1, 2014.

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

As the large commercial bank of the Integration, the Commercial Bank represents the TakaréK Group as a prestigious financial institution, competing with large banks in Budapest and cities with higher population; it closed its operations in smaller settlements in 2017. The Commercial Bank ceased to provide investment services on its own account from December 18, 2017. It continues to serve its previous clients through its network as an agent of MTB. The management of client accounts and portfolios were taken over by MTB.

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

2 THE MACROECONOMIC ENVIRONMENT IN 2019

2.1 THE HUNGARIAN ECONOMY IN 2019¹

Indicator	2017	2018	2019
Real GDP growth	4.3%	5.1%	4.9%
Industrial output growth	4.6%	3.5%	5.4%
Average annual rate of inflation	2.3%	2.8%	3.3%
Average annual rate of unemployment	4.2%	3.7%	3.4%
ESA-based budget balance (relative to GDP)*	-2.4%	-2.3%	-1.7%
Net external financing capacity (relative to GDP)*	3.1%	2.1%	1.7%
Base rate (end-of-year)	0.90%	0.90%	0.90%
EUR-HUF exchange rate (end-of-year)	310.14	321.51	330.52

*Estimate for 2019

Sources: KSH, MNB, NGM

The external environment – at least in terms of the real economy – was less supportive for Hungary's economy in 2019 than a year before. GDP growth slowed worldwide, but it was particularly the case in the European Union, within this Germany, Hungary's most important trading partner. However, as a reaction to the economic slowdown and strengthening geopolitical risks, the policy bias of major central banks, which back in 2018 was obviously tightening, changed to the opposite in 2019. On the other side of the Atlantic, the Fed, which in 2018 raised the fed funds rate by altogether 100bps in four steps, in fact cut this rate by 75bps last year in three steps to arrest the slowdown in the

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

economy. ECB was already unable to tighten back in 2018, so it had much lesser space to ease conditions through policy rates last year, the only such step was the 10bp cut (to -0.5%) of the deposit rate.

Despite the slowdown in the external environment the Hungarian economy could retain its strong growth dynamics: from 5.1% in 2018 GDP-growth hardly slowed to 4.9% in 2019. The robust growth rate was driven mostly by gross fixed capital formation expanding at double-digit rates for the third consecutive year, and also private consumption that was supported by 8% growth in real wages and continued improvements in the labour market (employment increased by another 1% and the number of employees exceeded 4.5 million at the end of 2019). From the production side market services sector - reflecting the upturn in domestic demand – contributed markedly to growth, and the construction sector had a strong year again, while industrial production also picked up from 2018. The strong increase in domestic demand, maintained faster import than export growth, nevertheless the trade surplus was still healthy enough, yet somewhat narrower than a year before.

Alongside strong growth performance both internal and external balances remained on a favourable path. The budget deficit in ESA-terms likely remained below 2% of GDP, while public debt relative to GDP may have decreased by another 2 percentage points, thus remained on a downward path for the eighth successive year and sank comfortably below 70%. Developments also remained encouraging with respect to the evolution of external balances: similarly to 2017 the net external financing capacity of the Hungarian economy remained positive for the eleventh year running. Although the surplus of the current account is no a decreasing trend, and declined to below 2% of GDP last year, it was still enough to slash net foreign debt further, which thus stood at just 7% of GDP at the end of 2019.

The 12-month rate of headline CPI inflation was more volatile in 2019 than in the previous years (fluctuating between 2.7% and 4%), with average annual inflation reaching 3.3%. By the end of the year even core inflation stabilized at the upper edge of the central bank's tolerance band (4%), however, filtering out the impact of indirect taxes and looking ahead the central bank is unlikely to see reasons to meaningfully tighten monetary conditions. Yet, the soft conditions upheld throughout 2019 made the Forint an underperformer among regional currencies with the Hungarian local currency hitting new all-time lows against the Euro. True, in early 2019 two rating agencies improved its grade on Hungary's long-term debt, which lent some support to the Forint, but since Forint denominated assets bear the lowest real interest rates (at the same time funding in Forint is the cheapest) in the region, the currency remained on a downward slide even despite the strong performance of the real economy.

The number of newly built dwellings in 2019 increased by 19.5% compared to 2018, but following a 3% fall in 2018, the number of new building permits fell another 4.3% last year. The decline mostly affected towns in the countryside, whereas Budapest even faced a growing number of building permits. The 19.5% growth in the number of newly built dwellings means that 21,127 flats were reported as new last year compared to 17,681 flats in 2018. Budapest clearly was the driving force behind these developments, since the annual growth rate exceeded 50%, while cities in the countryside that were the leading force of residential real estate markets in the previous years, saw their growth rates slow down considerably. Of the newly built 21,127 flats 58% was constructed by entrepreneurs whereas 42% by private persons, which is an increase in the case of the former, but a heavy decrease in the case of the latter.

2.2 THE BANKING SECTOR IN 2019²

The total assets of the banking sector amounted to HUF 43,497 billion at the end of 2019, up 10.2% from HUF 39,459 billion a year before. According to non-audited preliminary figures the combined pre-tax profit of the banking sector reached HUF 550 billion last year, almost exactly HUF 30 billion below last year's figure, but it was expected in the wake of much smaller net income from de-provisioning, as well as a continued increase in operating expenditures. The stock of net credit of the banking sector increased by 15.4% in 2019 and reached HUF 23,331 billion at the end of the year. Within this household credit increased by 18.1%, while the non-financial corporate sector was up by 12.2%.

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

5.2% of the stock of Forint denominated household credits were in a 90+ day arrear at the end of last year, while the share of non-performing loans was 6.8%. Both figures show significant decrease compared to end-2018 figures, which were 7.4% and 9.9% respectively. In the case of the non-financial corporate sector only 2% of their credit was in a 90+ day arrear, which is a marked decrease compared to 2.8% prevailing at the end of 2018.

The share of client deposits within total liabilities increased to 56% in 2019, its volume reached HUF 24,360 billion. 38.7% of this stock was owned by households, whereas 38.5% by the non-financial corporate sector.

2.2.1 Disbursement of household mortgage loans

The disbursement of new mortgage loans went up from a monthly HUF 60 to HUF 90 billion in the first half of 2019, before moderating in the wake of the introduction of the Waiting for Baby loan facility. Following the first wave of applicants for the latter, the monthly volume of new mortgage credit disbursements rose again to the HUF 80 to 90 billion range. The total annual disbursement finally reached HUF 979 billion, up 7% from 2018's HUF 915 billion. Both in the home equity loan segment, and the mortgage-backed general purpose loan segment the annual growth of disbursements was 7% compared to 2018.

2.2.2 Stock of household mortgage loans

The stock of household mortgage loans stood at HUF 4,526 billion at the end of 2019 according to the central bank's data release. This represents HUF 164 billion increment (+3.8%) over end-2018's HUF 4,363 billion stock. Within this it was home equity loans that drove the increase: from HUF 3,341 billion at the end of 2018 the stock increased to HUF 3,641 billion (up 9%) by the end of 2019. Meanwhile, the stock of mortgage-backed general purpose loans decreased by HUF 136 billion during 2019, and hence the outstanding stock was HUF 885 billion at the end of last year. The share of foreign currency denominated loans within total mortgage loans was less than 0.2%.

2.2.3 The market of mortgage bonds

In the course of 2019 the face value of the stock of mortgage bonds issued by the five mortgage banks residing in Hungary increased by HUF 61 billion, which implies 5% growth, and thus the end-year stock was close to HUF 1,280 billion at face value. The much higher growth in 2018 was due to the active presence of the central bank in the market segment; indeed, the central bank purchased HUF 300 billion mortgage bonds in net terms during 2018. However, in 2019 the program was no more in effect, and while the Mortgage Adequacy Financing Ratio was raised from 20% to 25% last year, banks made pre-arrangements for meeting the new limit already in 2018, and thus there was no need on their side to issue new series in 2019 (the market leader OTP Mortgage Bank for example had no mortgage bond issuance at all last year).

3 REPORT ON BUSINESS ACTIVITIES

In the course of 2018-2019 the Bank underwent radical structural, major operational and thorough ownership changes, which obviously markedly impacted the Bank's business and financial activities, the development of its balance sheet and profitability.

The Bank's balance sheet was cleared from the assets and liabilities of the Commercial Bank, which was previously 51% owned by the Bank. Due to this, the consolidated balance sheet of the Bank markedly contracted. Profit/Loss figures also reflect the major changes in activity profile and operational structure, which resulted in significantly weaker profits in 2019 than a year before. Hence, it is only from next year that major balance sheet and P&L items can be directly compared across consecutive calendar years.

3.1 MAJOR FINANCIAL INDICATORS (IFRS, CONSOLIDATED FIGURES)

HUF million	December 31, 2018	December 31, 2019	Change
Balance sheet total	754,516	342,897	-54.6%
Refinanced mortgage loans	105,296	217,205	106.3%
Book value of loans	372,594	57,608	-84.5%
Securities issued	214,389	265,929	24.0%
Shareholders' equity	55,236	65,043	17.8%
Profit/Loss before tax	4,706	1,008	-78.6%
Profit/Loss on discontinued operation	1,964	21,517	-
Full-year profit/loss	6,588	22,306	-
Attributable to: profit/(loss) of shareholders of the Bank from continuing operations	4,935	789	-84.0%
Total comprehensive income	6,276	22,338	-
Attributable to: profit/ (loss) of shareholders of the Bank from continuing operations	5,105	821	-83.9%
EPS (HUF)	43.27	5.3	-

The Bank's consolidated balance sheet total calculated according to International Financial Reporting Standards (IFRS) was HUF 342.9 billion as of 31 December 2019, which is significantly lower than a year before. This is largely attributed to the fact that the Bank sold its 51% share in the Commercial Bank to MTB.

The Bank's pre-tax profit in 2019 was HUF 1 billion as opposed to HUF 4.7bn in 2018. Taking into account the profit on discontinued operation (HUF 21.5bn in 2019), full-year profit amounted to HUF 22.3bn, the same as total comprehensive income.

3.2 LENDING

The Bank discontinued extending new mortgage loans for households as of April, 2018. Since then it only made allotments on earlier agreed loans with periodic disbursements as well as payments on non-refundable state subsidies. Lending activity was still performed by its affiliated company, the Commercial Bank, but the Bank sold its shares in the commercial Bank on the course of 2019.

The stock of the Bank's earlier disbursed loans was HUF 58.6bn at the end of 2019, 99.98% of which was household loan.

The composition of the loan portfolio:

HUF million	December 31, 2018	December 31, 2019	Change
Housing loans	130,261	48,368	-62.9%
Other mortgage loans	65,438	9,455	-85.6%
Consumer and other loans	13,062	-	-
Loans to employees	923	764	-17.2%
Corporate loans evaluated at amortized costs	169,641	9	-100.0%
Gross loans evaluated at amortized costs	379,325	58,596	-84.6%
Loans to companies at fair value	164	-	-
Total own loans (gross)	379,489	58,596	-84.6%
Revaluation to fair value	240	-	-
Loans extended under Credit for Growth scheme	-	-	-
Writedown due to currency renomination	-336	-	-
Accrued interest	5,206	-	-
Value adjustment after depreciation	610	-	-
Total gross loans	385,209	58,596	-84.8%
Impairment	-12,615	-988	92.2%
Loans, net	372,594	57,608	-84.6%

3.3 REFINANCING

By 31 December, 2019 the volume of refinanced loans increased by HUF 111.9 billion (i.e. by 106.3%) from a year ago and reached HUF 217.2 billion.

3.4 CUSTOMER DEPOSITS, BANK ACCOUNT SERVICES

At the end of 2019 the Bank had managed no client deposits, due to the fact that within the calendar year it sold its share in the Commercial Bank, which performed such activity.

3.5 SECURITIES ISSUES

As a result of capital market transactions in 2019 the Bank raised HUF 59.7 billion in new funds, exclusively in the form of mortgage bonds. This volume was raised through 15 issuances, all of which two took place through auctions at the stock exchange. In each issuance the entire spectrum of the Bank's dealers were involved. On the course of the

transactions three different series of mortgage bonds were put into circulation with both fixed and variable coupons, maturities of 5 to 10-years, denominated in HUF only. The TJ24NV01 variable coupon series was the most frequently issued; it was put up for auction eight times in 2019. The third quarter was the most active with respect to issue volumes: HUF 33.5 billion was sold to investors in that period.

Alongside strong issuance activity the Bank also performed repurchases throughout 2019. In October the Bank repurchased HUF 20 billion of the variable rate bond it issued in March 2018 from the then still independently existing Commercial Bank. Besides this transaction, the Bank made repurchases of mortgage bonds affecting three earlier issued series. The volume of these repurchase transactions was HUF 500 million and EUR 4.3 million.

Three series of mortgage bonds expiring in 2019 totalled HUF 13.6 billion, and HUF 5.1 billion of uncovered bonds also expired last year. With the latter, there remained no more uncovered bonds among the Bank's still outstanding issuances.

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

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

The net value of real estate collateral covering mortgage bonds issued by the Bank was HUF 309.3 billion as of December 31, 2019, 12.9% above the figure prevailing at December 31, 2018 (HUF 269.3 billion).

Value of mortgage bonds and assets involved as collateral

HUF million	December 31, 2018	December 31, 2019	Change
Outstanding mortgage bonds in circulation			
Face value	222,451	226,746	19.9%
Interest	32,607	30,956	-5.0%
Total	255,058	297,702	16.7%
Value of ordinary collateral			
Principal	222,731	252,187	13.2%
Interest	46,533	57,136	22.8%
Total	269,264	309,323	14.9%
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	32,676*	45,552	39.4%
Mortgage bonds	3,575*	-	-
Total	36,251*	45,552	25.6%

* The volume of interest was not indicated in the value of the substitute collaterals in 2018, but the calculation has been adjusted in the 2019 Business Report. The reason behind it was twofold, first the register and the accounting system of the substitute collaterals changed, (Inforex instead of Bankmaster) and consequently there was an adjustment in the interest calculation: the volume of the interest increased, secondly in the quarterly mandatory disclosure the Bank is always indicating the interest of the substitute collateral.

As of 31 December 2019, the present value of ordinary and supplementary collateral was HUF 313.8 billion and the present value of mortgage bonds was HUF 287.9 billion, thus the present value of collateral exceeded significantly that of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The combined present value of collateral to the combined value of mortgage bonds in circulation was 108.99%.

The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 110.35%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 195.52% as of December 31, 2019.

4 LIQUIDITY MANAGEMENT

In accordance with the special legal status of the Bank, the institution is not allowed to collect client deposits, thus among its liabilities the main components are mortgage bonds, other uncovered bonds and interbank liabilities. As a member of TakaréK Group the Bank covers its liquidity positions mostly against other entities within TakaréK Group. The Bank is entitled to cover its amount of refinanced and self-issued loans by mortgage bonds only to the extent of its capital, which can be taken into account in the coverage pool. Ensuring the necessary capital backing up mortgage debt, managing the actual excess coverage position and liquid assets needed to meet the liquidity buffers to ensure orderly future principal and interest payments on mortgage bonds are financed from uncovered liabilities.

Effective from March 28, 2019 the mortgage bonds issued by the Bank are rated by S&P Global (currently at BBB with stable outlook). On March 31, 2019 the Bank terminated its rating contract with Moody's Investor Services, which thus withdrew its rating on the Bank's mortgage bonds, as there was no more possibility for updating information necessary to evaluate/adjust the rating. Hence, the Bank's obligation of maintaining excess coverage and liquidity, which was necessary in order to confirm and maintain a valid rating from Moody's, was also abolished. From the second quarter of 2019 a new internal regulation was introduced, whereby the Bank maintains 2% excess coverage and 6-month liquidity buffer.

In this new regime, the liquidity need is primarily determined by the actual size of the above-mentioned 6-month liquidity buffer, which develops according to cash-flows on the Bank's own issued mortgage bonds expected on a six-month horizon.

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities were mostly influenced by the dynamic increase in the stock of refinanced loans, the active presence in the market of primary mortgage bond issuances (in order to secure the MFAR compliance of TakaréK Group), and also the liquidity that emerged in the wake of selling the Bank's ownership in the Commercial Bank.

The stock of refinancing loans increased by HUF 43.6 billion (+25%) in 2019 and reached HUF 216.9 billion by the end of the year. This growth, which exceeded the HUF 38.4 billion increment in 2018, also raised the need for accumulating funds through the issuance of mortgage bonds.

The amount of mortgage bonds increased by close to 20% (HUF 44.3 billion) in the last year. From a face value of 222.5 billion at the end of 2018 the stock reached HUF 266.8 billion by the end of 2019. Throughout 2019, the Bank raised a total of HUF 59.7 billion in new funds exclusively in the form of mortgage bond issues, through stock market auctions and with the involvement of the entire distribution circle. The Mortgage Bank repurchased mortgage bonds with a total value of HUF 500 million and EUR 4.3 million three times in the entire 2019 year, while in 2019 a total nominal value of HUF 13.6 billion matured.

At the end of 2019, the outstanding amount of unsecured bonds issued by the Mortgage Bank was lower than the maturity date of the year. In the first quarter, the Bank repurchased the entire outstanding 20 billion HUF nominal amount of outstanding bonds.

The stock of interbank liabilities continued to decrease further and by the end of 2019 it was merely HUF 456 million. This means that almost the entire liability side of the Bank consists of mortgage bonds.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

The Bank must comply with the requirements of the Integration Organisation of Cooperative Credit Institution and of MTB (as the business management body of the Integration).

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

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

The Bank considers prudent risk management as a vital value.

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

5.2 CREDIT RISK

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

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

With respect to the corporate clientele the sector-specific limit system applied to corporate lending was instrumental in establishing risk taking directions to year 2019.

With respect to household lending risk taking directions were determined by lending procedures, rules for income recognition and related auxiliary documents and guides.

5.3 LIQUIDITY AND MATURITY RISK

Maintaining liquidity is an essential element of banking activity. The Bank maintains its liquidity by adjusting the maturity profile of its assets and liabilities. In the framework of asset and liability management (ALM) the Bank mitigates maturity risk through both the repurchase of the securities issued earlier and new issuances. At the same time, it applies maturity

transformation control by pre-defined limits in order to improve profitability, while maintaining solvency at all times. The Bank regularly reviews prepayments and early payment requests initiated by clients and takes into consideration their impact on managing market and liquidity risks.

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

5.4 EXCHANGE RATE RISK

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

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions are supportive to do so. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or accrued expenses and deferred charges in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

Operational risks are handled through the continuous improvement of internal regulations and procedures, the adequate training of employees and the enhancement of built-in control mechanisms. The senior management of the Bank regards feedbacks as an indispensable tool in managing operational risks. It is considered a very important aspect to monitor the effectiveness of measures taken in order to eliminate operational risks. About operational risk events and the results of operational risk monitoring there is a regular monthly report. In order to identify operational risks in time the Bank supports its employees by providing internal training.

The Bank collects and analyses loss data due to operational risk based on a system of Key Risk Indicators (KRI). The KRIs are reviewed each year, thus also in 2019 various KRIs were modified and new KRIs were defined as well. In order to improve the quality of these indicators, the operational risk division of the Bank holds expert meetings with those units that are responsible for the collection and processing of data, and they jointly decide on indicators and their critical levels/limits. The Bank compiled an inventory for the used risk models in accordance with the surveillance requirements and a list of products to identify product-specific risks.

6 ORGANIZATION CHANGES AND HEADCOUNT

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

The Bank's full-time equivalent number of employees in 2019 was 14 (back in 2018 the number of employees was 36 on non-consolidated level, and 724 on consolidated level).

7 FINANCIAL ANALYSIS

7.1 BALANCE SHEET STRUCTURE

From the aspect of individual balance sheet items and their changes from 2018 to 2019 a decisive impact came from the sale of the Bank's 51% ownership in the Commercial Bank.

in HUF million	December 31, 2018	December 31, 2019	Change
Cash on hand	3,157	0	-
Claims on central bank	2,073	915	-55.9%
Interbank assets	61,664	17,566	-71.5%
Securities at amortised cost	0	999	-
Securities at fair value through other comprehensive income	192,142	43,734	-77.2%
Derivate financial assets	3,962	2,851	-28.0%
Refinanced mortgage loans	105,296	217,205	106.3%
Loans	372,594	57,608	-84.5%
Real estate for investment purposes at fair value	0	0	-
Tangible assets	2,171	157	-92.8%
Goodwill and other intangible assets	388	241	-37.9%
Deferred tax asset	679	0	-
Other assets	10,390	1,621	-84.4%
Total assets	754,516	342,897	-54.6%
Interbank liabilities	156,659	3,119	-98.0%
Deposits from customers	304,333	0	-
Derivative financial liabilities	2,371	423	-82.2%
Liability to central state	0	0	-
Issued securities	214,389	265,929	24.0%
Financial liabilities at fair value through profit or loss, except for derivative	6,693	6,552	-2.1%
Liability on leasing deals	0	70	-
Tax liability on profit/loss	0	0	-
Deferred tax liability	0	93	-
Provisions	3,988	509	-87.2%
Other liabilities	10,847	1,159	-89.3%
Total liabilities	699,280	277,854	-60.3%

in HUF million	December 31, 2018	December 31, 2019	Change
Share capital	10,849	10,849	0.0%
Treasury shares	-207	-207	0.0%
Accumulated wealth	2,479	24,556	-
Other reserves	29,598	29,845	0.8%
Non-controlling interest	12,517	0	-
Total shareholders' equity	55,236	65,043	17.8%
Total liabilities and shareholders' equity	754,516	342,897	-54.6%

As of 31 December 2019, the Bank's consolidated balance sheet total according to IFRS amounted to HUF 342.9 billion. On the asset side refinancing loans represent the highest share. Due to a surge in the Bank's refinancing activity the stock of refinancing loans increased spectacularly and reached HUF 217.2 billion by the end of the year. On the liabilities side it is issued securities that have the highest share; their total volume reached HUF 266 billion at the end of 2019.

Shareholders' equity increased by HUF 9.8 billion or 17.8% year-on-year, the main reason of which was the consolidated profit in 2019.

Claims on central bank and interbank assets

Claims on MNB and other banks contracted in volume from HUF 63.7 billion at the end of 2018 to HUF 18.5 billion by the end of 2019.

Securities at fair value through other comprehensive income

The value of Bank's securities at fair value through other comprehensive income decreased from HUF 192.1 billion as of 31 December 2018 to HUF 43.7 billion as of 31 December 2019. Of this latter HUF 30.9 billion was in the form of government securities.

Refinancing loans

The Bank netted into contractual deals with numerous large Hungarian commercial banks in order to refinance their mortgage loans. By the end of 2019 the number of refinanced partner banks increased to 11. As a result, the stock of refinancing loans extended by the Bank markedly increased and amounted to HUF 217 billion by the end of 2019.

Loans

As already mentioned in Section 3.2, the Bank discontinued extending new mortgage loans for households as of April, 2018. Since then it only made allotments on earlier agreed loans with periodic disbursements as well as payments on non-refundable state subsidies. Lending activity was still performed by its affiliated company, the Commercial Bank, but the Bank sold its shares in the commercial Bank on the course of 2019.

The stock of the Bank's earlier disbursed loans was HUF 58.6bn at the end of 2019, 99.98% of which was household loan.

Portfolio quality

The Bank had HUF 312.53 billion classified assets, HUF 0.54 billion contingent liabilities (altogether HUF 313.07 billion) in its books as of December 31, 2019.

Claims on clients amounted to HUF 58.6 billion (18.71% of the portfolio excluding swaps), moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 0.54 billion (0.17%) at the end of 2019.

Of these 779 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.78 billion in claims and HUF 4 million as commitments with HUF 0.56 billion in impairments and provisions. HUF 55.8 billion claim and HUF 0.54 billion commitment was classified as Stage 1 and Stage 2 categories, with HUF 0.42 billion in impairments and provisions.

The share of problem free (Stage 1 and Stage 2) loans was 95.28% as of December 31, 2019, consequently the share of Stage 3 loans was 4.72%.

Average impairment considerably decreased both in the entire (excl. swaps) portfolio (0.32%) and the loan portfolio (1.66%) compared to end-2018.

Interbank funds

As of 31 December, 2019 interbank funds amounted to HUF 3.1 billion, comprising a mere 1% of balance sheet total.

CMBs and Bonds issued

The book value of mortgage and uncovered bonds - measured at amortised cost and at fair value - was HUF 265.9 billion as of 31 December 2019, which is 24% increase from HUF 214.4 billion prevailing at the end of 2018.

Deposits

At the end of 2019 the Bank had no client deposits on its books.

Shareholders' equity

The composition and amount of the registered capital of the company as of December 31, 2019

Share Series	Face value (HUF/piece)	Amount issued (piece)	Total amount (HUF)
Series "A" (Ordinary Shares)	100	66,000,010	6,600,001,000
Series "B" (Dividend Preference Shares)	100	14,163,430	1,416,343 000
Series "C" (Ordinary Shares)	1,000	2,832,686	2,832,686,000
Total amount of registered capital		82,996,126	10,849,030,000

7.2 PROFIT & LOSS STRUCTURE

From the aspect of individual P&L items and their changes from 2018 to 2019 a decisive impact came from the sale of the Bank's 51% ownership in the Commercial Bank.

HUF million	2018 FY	2019 FY	Change (%)
Interest income	9,693	8,899	-8.2%
Interest expense	-7,900	-7,613	-3.6%
Net interest income	1,793	1,286	-28.3%
Fee and commission income	383	1,813	373.4%
Fee and commission expense	-502	-389	-22.5%
Net fee and commission income	-119	1,424	-
Profit/Loss from FX transactions	5	71	-
Change in fair value of financial instruments	2,045	58	-97.2%
Profit/Loss on securities	1,566	733	-53.2%
Net trading result	3,616	862	-76.2%
Other operating revenue	1,821	841	-53.8%
Other operating expense	-692	-902	30.3%
Operating income	6,419	3,511	-45.3%
Provision for impairment on loan losses	1,736	155	-91.1%
General and administrative expenses	-3,449	-2,658	-22.9%
Profit/Loss before tax	4,706	1,008	-78.6%
Income tax	-82	-219	167.1%
Profit/Loss from discontinued operation	1,964	21,517	-
Profit/Loss for the period	6,588	22,306	238.6%
Cash-flow hedge reserves	25	-31	-
Change of fair value in financial instruments	-368	66	-
Net impact from deferred taxes	31	-3	-
Other comprehensive income with deferred taxes	-312	32	-
Total comprehensive income	6,276	22,338	255.9%

7.2.1 Net interest income

Net interest income was HUF 1.3 billion in 2019, 28.3% lower than a year before. Interest income was HUF 8.9 billion (down 8.2% from 2018), within this income on loans represented the highest share. Interest expenditure amounted to HUF 7.6 billion (down 3.6% from 2018), with securities related expenses bearing the highest share within this item.

7.2.2 Net fees and commissions

In 2019 the Bank achieved a positive balance of HUF 1.424 billion on commissions and fees as opposed to HUF 119 million deficit back in 2018.

7.2.3 Net trading result

In 2019 the balance of financial transactions showed HUF 862 million profit (2018: 3.616 million forint). This is mostly the result on changes in the fair value of financial instruments.

7.2.4 Other operating income and expenditure

As a result of HUF 841 million in other operating revenues and HUF 902 million in other expenses the balance on other operations showed a minor loss of HUF 61 million in 2019.

7.2.5 General and administrative expenses

General and administrative costs amounted to HUF 2.7 billion in the course of 2019, which is HUF 791 million (or close to 23%) lower than in 2018. The highest cost component with HUF 836 million was maintenance costs, whereas personnel costs amounted to HUF 318 million in 2019.

7.2.6 Impairment and loan losses

Combined risk costs amounted to HUF 155 million in 2019. Impairment losses changed by HUF 1.6 billion compared to the end of last year.

7.3 Capital position

Members of the SZHISZ - in view of the institutional system of joint and universal liability - should comply with prudential requirements on a consolidated basis, they are exempted from individual compliance by the relevant legislation according to the decision of the MNB.

Hence, the prudential requirement on capital adequacy should be interpreted in the TakaréK Group's context. The Group level capital adequacy requirement was met at the end of 2019.

8 PROTECTION OF ENVIRONMENT

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

9 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

Under the label of other services and the preparation of a special report to the MNB the auditing company invoiced the Bank HUF 5.5 million in 2019.

10 POST BALANCE SHEET DATE EVENTS

The Bank (TMB) has won the Budapest Stock Exchange's BÉT Legek (BSE Bests) Award of Best Mortgage Bonds Issuer of the Year 2019 based on TMB's active capital market activity. The reason behind the decision is that the Bank issued nearly HUF 60 billion mortgage bonds in nominal value and listed them on the stock exchange. The Bank organized 15 public auctions on the BSE auction platform 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. The Bank, acting as a pure mortgage bank (ie. providing refinancing and issuing covered bonds) strives to issue mortgage bonds through regular auctions and to offer competitive assets to investors, and to provide adequate long-term funding for refinancing partners.

On February 28, 2020 S&P Global Ratings (Madrid) made a statement that it confirms the BBB rating on the Bank's mortgage bond issuance program and the already issued Forint and foreign currency denominated mortgage bond series, and subsequently improved the outlook from stable to positive. This is explained by the fact that S&P lifted the outlook (from stable to positive) on Hungary's sovereign debt rating as of February 14, 2020.

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) of the Index Manual - the exclusion of the shares of the Company 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.

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.

Takarék Mortgage Bank Plc.

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

December 31, 2019

Consolidated 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

External Members of the Board of Directors

Gábor Gergő Soltész

Éva Hegedűs

Pál Sass

Internal Members of the Board of Directors

Dr. Gyula László Nagy

Attila Mészáros

Chief Executive Officers

Dr. Gyula László Nagy (Chief Executive Officer from 26/04/2017)

Attila Mészáros (Deputy Chief Executive Officer from 11/10/2018)

Large Shareholders Liaison Officer and Secretary

Illés Tóth

Small Shareholders Liaison Officer

info@takarek.hu

Auditor

Deloitte Ltd.

Personally responsible auditor

Gábor Molnár

Seat of the Bank, central office

Budapest.

Magyar Tudósok körútja 9. G. ép

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takaréék Mortgage Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Takaréék Mortgage Bank Plc. and its subsidiaries (the „Group”) for the year 2019 which comprise the Consolidated Statement of Financial Position as at December 31, 2019 – which shows a total assets of MHUF 342,897 –, and the related Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income – which shows a Profit for the year of MHUF 22,306 –, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the Consolidated Financial Statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements*" section of our report.

We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the matter
<i>Calculation of expected credit losses on loans assessed on portfolio-level</i>	
<p>(See Sections 20 of Notes to the Consolidated Financial Statements for the details)</p> <p>As at December 31, 2019 the Group 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.</p> <p>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.</p> <p>The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none"> - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. <p>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.</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none"> - 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 consolidated business report of the Group for 2019, but does not include the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated 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 consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated 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 consolidated business report is consistent with the consolidated 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 consolidated business report.

In our opinion, the consolidated business report of the Group for 2019 corresponds to the consolidated financial statements of the Group 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 Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The auditor's responsibilities for the audit of the consolidated financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group'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 consolidated 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 Takarékké Mortgage Bank Plc. 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 consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of Takarékké Mortgage Bank Plc., 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 Group. In addition, there are no other non-audit services which were provided by us to Takarékké Mortgage Bank Plc. and its controlled undertakings and which have not been disclosed in the consolidated 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

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

	Notes	2019*	2018*
Interest income	4	8,899	9,693
Interest expense	4	(7,613)	(7,900)
Net interest income		1,286	1,793
Fee and commission income	5	1,813	383
Fee and commission expense	5	(389)	(502)
Net fee and commission income		1,424	(119)
Profit from foreign exchange transactions		71	5
Change in fair value of financial instruments	35	58	2,045
Gains from securities		733	1,566
Net result from investment services		-	-
Net trading result		862	3,616
Other operating income	6	841	1,821
Other operating expense	7	(902)	(692)
Operating income, net		3,511	6,419
Provision for impairment losses	20	155	1,736
General and administrative expenses	8	(2,658)	(3,449)
Profit before tax		1,008	4,706
Income tax expense	11	(219)	(82)
Profit from discontinued operations	17	21,517	1,964
Profit for the year		22,306	6,588
Attributable to: profit of shareholders of the Bank from continuing operations		789	4,935
Attributable to: non-controlling interests		-	(311)
Earnings per share (HUF 100 face value)	31		
<i>Basic earnings per share (HUF)</i>		5.30	43.27
<i>Diluted earnings per share (HUF)</i>		5.30	43.27

*The data in the table until the Profit from discontinued operations line are the individual data of Takarék Mortgage Bank consolidated with Takarék Commercial Bank.

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

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

	Notes	2019	2018
Profit for the year		22,306	6,588
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in Cash-flow hedge reserve		(31)	25
Change in fair value of securities at fair value through other comprehensive income		66	(368)
Foreign currency translation reserve		-	-
Deferred tax effect for other comprehensive income		(3)	31
Other comprehensive (loss)/profit for the period net of taxes	12	32	(312)
Total comprehensive income for the year, net of income taxes		22,338	6,276
Attributable to: profit of shareholders of the Bank from continuing operations		821	5,105
Attributable to: non-controlling interests		-	(311)

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

Consolidated Statement of Financial Position as at 31 December 2019

	Notes	31 December 2019*	31 December 2018**
Assets			
Cash on hand		-	3,157
Balances with the National Bank of Hungary	14	915	2,073
Due from banks	15	17,566	61,664
Securities at fair value through other comprehensive income	16	43,734	192,142
Derivative financial assets	35	2,851	3,962
Securities at amortised cost	18	999	-
Refinanced mortgage loans	19	217,205	105,296
Loans and advances to customers at amortised cost and at fair value	20	57,8288	372,594
Tangible assets	21,23	157	2,171
Intangible assets	22	241	388
Deferred tax asset	11	0	679
Other assets	24	1,401	10,390
Total assets		342,897	754,516

*The data as of December 31, 2019 are the individual data of Takarék Mortgage Bank

**Data as of December 31, 2018 are Takarék Mortgage Bank Consolidated Data (includes Takarék Commercial Bank Consolidated Data)

Consolidated Statement of Financial Position as at 31 December 2019

	Notes	31 December 2019*	31 December 2018**
Liabilities			
Due to banks	25	3,119	156,659
Deposits from customers	28	-	304,333
Derivative financial liabilities	35	423	2,371
Issued securities	26	265,929	214,389
Financial liabilities at fair value through profit or loss, except for derivatives	27	6,552	6,693
Lease liability	23	70	-
Deferred tax liabilities	11	93	-
Provisions	29	509	3,988
Other liabilities	30	1,159	10,847
Total liabilities		277,854	699,280
Shareholders' equity			
Share capital	31	10,849	10,849
Treasury shares	31	(207)	(207)
Retained earnings		24,556	2,479
Other reserve	31	29,845	29,598
Non-controlling interest	31	-	12,517
Total shareholders' equity		65,043	55,236
Total liabilities and shareholders' equity		342,897	754,516

*The data as of December 31, 2019 are the individual data of Takarék Mortgage Bank

**Data as of December 31, 2018 are Takarék Mortgage Bank Consolidated Data (includes Takarék Commercial Bank Consolidated Data)

Budapest, 31 March 2020


Dr. Gyula László Nagy
CEO




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

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

	Notes	2019	2018
Cash flow from operating activities			
Profit for the year from continuing operation		790	4,622
Profit for the year from discontinued operation		21,517	1,964
Non-cash adjustments to net profit/(loss) from:			
Depreciation and amortization from continuing operation	21,22	159	288
Depreciation and amortization from discontinued operation	21,22	114	-
Impairment of tangible assets	21,22	104	656
Release of provision for losses (contains the impact of implementation of IFRS 9 in 2018)		(2,111)	(5,923)
Release of other provision		(65)	(1,686)
Loss on tangible assets derecognized		16	119
Gain/ (loss) on intangible assets derecognized		-	284
Capitalized interest on loans and advanced to customers at amortised cost and fair value		137	567
Fair value adjustment of derivatives	35	(337)	(2,236)
Fair value adjustment on financial liabilities at fair value through profit or loss, other than derivatives		51	186
Operating loss before change in operating assets		(1,142)	(1,160)
Decrease/(Increase) in operating assets:			
Securities at amortised cost		999	-
Securities at fair value through profit or loss		-	46,651
Securities at fair value through other comprehensive income		(4,370)	(112,281)
Refinanced mortgage loans		(47,842)	(28,699)
Loans and advances to customers at amortised cost and at fair value		17,522	(58,553)
Other assets		(45 619)	(4,052)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		-	(24,920)
Due to banks		(19,805)	(124,246)
Other liabilities		(391)	5,131
Net cash flow from operating activities		(102,647)	(302,129)

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

Consolidated Statement of Cash Flows for the year ended 31 December 2019 - continued

	Notes	2019	2018
Cash flow from investing activities			
Proceeds from sales of tangible assets		-	272
Purchase of tangible and intangible assets		2	(202)
Net cash outflow from investing activities		2	70
Cash flow from financing activities			
Proceed from issued securities		60,854	157,570
Principal repayment on issued securities		(21,577)	(120,636)
Repayment of long term loans		10,378	246,922
Repayment of leasing liabilities		(42)	-
Net cash outflow from financing activity		49,614	283,856
Decrease in cash and cash equivalents		(53,031)	(18,203)
Net effect of the sale of subsidiaries and joint venture	17	4,618	-
Opening balance of cash and cash equivalents		66,894	85,097
Closing balance of cash and cash equivalents		18,481	66,894
Breakdown of cash and cash equivalents:			
Cash on hand		-	3,157
Balances with the National Bank of Hungary		915	2,073
Due from banks with a maturity of less than 90 days		17,566	61,664
Closing balance of cash and cash equivalents		18,481	66,894
<i>Supplementary data</i>			
<i>Interest received</i>		11,087	23,557
<i>Interest paid</i>		(8,385)	(8,462)

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

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

	Notes	Share capital	Treasury shares	Share premium	General reserve	Cash flow hedge reserve	Change in fair value of securities at fair value through other comprehensive income	Retained earnings	Non-controlling interest	Shareholder's equity
1 January 2018		10,849	(207)	27,926	460	5	1,267	(2,796)	12,828	50,332
IFRS 9 adjustment		-	-	-	-	-	-	(1,370)	-	(1,370)
Profit for the year		-	-	-	-	-	-	6,897	(311)	6,586
Other comprehensive income	12	-	-	-	-	23	(335)	-	-	(312)
Transfer to general reserve		-	-	-	252	-	-	(252)	-	-
1 January 2019		10,849	(207)	27,926	712	28	932	2,479	12,517	55,236
IFRS16 adjustment	41	-	-	-	-	-	-	(14)	-	(14)
1 January 2019 - Opening		10,849	(207)	27,926	712	28	932	2,465	12,517	55,222
Profit from the year from continuing operations		-	-	-	-	-	-	789	-	789
Profit for the year from discontinued operations		-	-	-	-	-	-	21,517	-	21,517
Other comprehensive income	12	-	-	-	-	(28)	60	-	-	32
Change in non-controlling interest		-	-	-	-	-	-	-	(12,517)	(12,517)
Transfer to general reserve		-	-	-	215	-	-	(215)	-	-
31 December 2019		10,849	(207)	27,926	927	-	992	24,556	-	65,043

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

Notes to the Consolidated Financial Statements

1 DESCRIPTION OF THE BANK

Takarék Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Plc., hereinafter “the Bank”) was established on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion.

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

The Bank received its license on 6 March 1998 to operate as a specialized financial institution in accordance with the provisions of Act CXII of 1996 on Credit Institutions and Financial Enterprises and Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds. The Bank commenced operations as of 16 March 1998.

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

The Bank introduced its New Strategic Plan in February 2006 to expand its banking activity and branch network. The Bank set up new subsidiaries, among them the Takarék Commercial Bank Ltd., thereby significantly expanding the range of services provided by the Group. At that time Takarék Mortgage Bank Plc. is the parent company of the group. (The Bank and its subsidiaries are jointly referred to as the Group, Bank Group.)

The strategic partnership program with Allianz was adopted by the Board of Directors of Takarék Mortgage Bank, the plan included the acquisition of the Allianz Bank, which merged into the Takarék Commercial Bank Ltd in 2011. This strategic partnership was terminated in 2018. The Board of Directors also approved “The bank of the families” concept, meaning a customer- and service-driven sales attitude.

In 2013, Takarék Mortgage Bank managed several acquisitions, there through broadened the Banking Group and the range of activities. It included the acquisition of Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), the purchase of the Díjbeszedő Operational and Service Limited Liability Company, hereinafter the “DÜSZ”), that come into being after a demerge from Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Co. Plc. (“DBF”), DíjNET Ltd., Díjbeszedő Informatikai Lld (“DBIT”) and the portion of the ownership of the Magyar Posta (Hungarian Post).

Related to the transaction of the business shares, the Bank and the Magyar Posta (Hungarian Post) entered into a strategic cooperation, and in the scope of that they shall cooperate in the ownership and control of some of their jointly controlled companies, furthermore in course of the harmonization of their business activities.

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

Notes to the Consolidated Financial Statements

Takarék Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 billion face value, or HUF 30.5 billion issue value. Capital increase was executed by issuing dematerialized dividend preference shares (Series "B") and registered, dematerialized ordinary shares (Series "C"). The new shares (Series "B" and Series "C") were not listed on the Budapest Stock Exchange, they were purchased by the members of the Integration.

As parent company of the Group, the Mortgage Bank exercised its rights over the Group companies until 2017, the rights were transferred to MTB Magyar Takarékszövetkezeti Bank Zrt. in 2017 according to the strategy of SZHISZ.

The satellite financial entities of the Group, including the fund management, the leasing and factoring services and the centralized debt collection were taken over in December 2017 by the MTB Magyar Takarékszövetkezeti Bank Zrt., the leader of the Integration. MTB Magyar Takarékszövetkezeti Bank Zrt. extended the provision of investment services also to the customers of the Group from 2017, supported by the TakaréK Commercial Bank, as investment agent.

From the second quarter of 2018 the TakaréK Mortgage Banks continues its operations purely as a refinancing mortgage bank, the TakaréK Commercial Bank provides retail mortgage lending services to customers. However, the existing loan portfolio remains at TakaréK Mortgage Bank until expiry.

On 30 November 2018, the General Meeting of MTB Magyar Takarékszövetkezeti Bank Zrt. adopted the TakaréK Group's new business strategy for the period 2019-2023, which opens a new chapter in the one and a half century history of Savings Cooperatives. One of the most important elements of this is the foundation of a new, universal, commercial bank in which the savings cooperatives merge and the new bank will serve the customers of all savings. This new bank will be the national commercial bank of the TakaréK Group.

In December 2017 the Bank sold the majority of their direct and indirect investments leaving TakaréK Commercial Bank Ltd. amongst their shares unsold until the date 29 October 2019. TakaréK Mortgage Bank Plc. sold 51 % investment in TakaréK Commercial Bank to MTB Ltd. with that closing transaction. TakaréK Commercial Bank is part of 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 provision and leasing activity), in 2019 are further provided by MTB to the Mortgage Bank and TakaréK Commercial Bank Zrt., within the framework of service level agreement (SLA) contract. The TakaréK 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.

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.

Notes to the Consolidated Financial Statements

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for securities at fair value through other comprehensive income, derivative financial instruments, loans at fair value through profit or loss, financial liabilities at fair value through profit or loss, that are recorded at fair value

Statement of compliance

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

2.2 Change in accounting policies-

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 2019),
- **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 Group’s financial statements.

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

Notes to the Consolidated Financial Statements

- **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 Group has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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

Notes to the Consolidated Financial Statements

2.3 Currency of the consolidated financial statements

Unless otherwise stated, the consolidated financial statements are presented in million of Hungarian forint (HUF), the Hungarian forint is the functional and presentation currency used by Bank and its subsidiary with registered office in Hungary. The functional currency of the German branch of Takarék Commercial Bank Ltd. is the Euro (EUR).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2019.

Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss the majority of the members of the Board of Directors.

Consolidation involves all of the subsidiaries as of the day of acquisition of control. Consolidation of the subsidiaries ceases when the Company loses control of the subsidiaries. Control achieved when the Bank has power over the investee, is exposed, or has rights, to variable returns from its involvement with investee, and has the ability to use its power to affect its return.

The list of the subsidiaries of the Bank as at 31 December 2018 is the following:

Companies included in the consolidation	Main shareholder**	Core business	Relationship *
Takarék Commercial Bank Ltd.	Takarék Mortgage Bank Plc. 51%	Universal banking services	S

* Relationship: "S"=subsidiary.

** % in the column = the ownership of the main shareholder

The list of the subsidiaries of the Bank as at 31 December 2019 is the following:

Companies included in the consolidation	Main shareholder	Core business	Relationship
not any consolidated entity *			

*The investment in Takarék Commercial Bank Ltd. sold in 29 October 2019 to MTB. These consolidated financial statements include the profit from discontinued operations in separate line in Consolidates Statement of Profit or Loss in 2019 and 2018. The assets and liabilities do not include the Takarék Commercial Bank in the Consolidated Statement of Financial Position in 2019.

Notes to the Consolidated Financial Statements

2.5 Rounding

When rounding to thousands, anything above the midpoint of HUF 500 is rounded up and anything below and including the midpoint is rounded down. When rounding to millions, anything above the midpoint of HUF 500,000 is rounded up and anything below and including the midpoint is rounded down.

2.6 Summary of significant accounting policies

2.6.1 Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- **Cash and cash equivalents**
- **Financial assets held for trading**
 - Derivative financial assets
- **Non-trading financial assets mandatorily at fair value through profit or loss**
 - Loans and advances to customers at fair value
- **Financial assets at fair value through other comprehensive income**
 - Securities at fair value through other comprehensive income
- **Financial assets at amortised cost:**
 - Balances with the National Bank of Hungary
 - Due from banks
 - Refinanced mortgage loans
 - Loans and advances to customers at amortised cost

The Bank groups the recognised financial liabilities as follows:

- **Financial liabilities held for trading**
 - Derivative financial liabilities
- **Financial liabilities classified at fair value through profit or loss**
 - Financial liabilities at fair value through profit or loss, other than derivatives
- **Financial liabilities measured at amortised cost (other financial liabilities):**
 - Due to banks
 - Deposits from customers
 - Issued securities

2.6.2 Cash and cash equivalents

For the purpose of the Consolidated 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.

2.6.3 Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income 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

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

Notes to the Consolidated Financial Statements

difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on these items are recognized in the consolidated statement of profit or loss, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in the consolidated statement of profit or loss for the applicable period.

2.6.4 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 liens are 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 bears is the credit risk of the partner banks.

Refinanced mortgage loans are presented at amortized cost less impairment losses.

2.6.5 Loans and advances to customers at amortised cost

Loans provided directly to customers are reported as loans and advances to customers and are measured at amortized cost less any impairment losses. 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.

All loans and advances are recognized upon their disbursement.

2.6.6 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 Group 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.

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

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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.

2.6.7 Impairment losses on loans

IFRS 9:

Impairment losses on loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.

Impairment losses on loans and placements with other banks is 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.

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

Impairment on a particular loan or a group of similar loans is recognized if their book value is greater than the estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The impairment for significant loans is assessed individually. For those loans that are of insignificant in their individual amounts the Bank assesses impairment on a portfolio basis, taking into consideration the type and the classification of the loan, non-performance history and losses.

The Bank writes off loss on loans and advances when borrowers are unable to fulfil their obligations to the Bank and when relevant evidence has been obtained through the appropriate legal proceedings. 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. The impairment of loans and advances are recognized as credit loss expenses. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The Group applies individual evaluation for receivables from non-retail customers, reverse mortgage transactions.

In the course of individual evaluation the credit rating department and decisive management evaluate wholly all observable information during definition of rating classes and amount of impairment, mainly amount of receivables, default, foreclosures, debtor's payment discipline, attitude, etc.

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

Notes to the Consolidated Financial Statements

The Group applies collective and statistical evaluation in cases of covered receivables from retail customers and overdraft receivables from retail customers.

The Group applies collective and simplified evaluation in cases of uncovered receivables except of overdraft receivables.

2.6.8 Leases

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.

The Bank as lessee

In the context of operative lease schemes the lessor does not essentially transfer the Bank all risks and benefits associated with ownership. Lease payments pursuant to an operative lease transaction are recognized in the expense item on a straight-line basis throughout the terms of the lease. Contingent lease fees are recognised as expense when incurred.

Asset held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

The Bank as lessor

Leases where the Group transfers substantially all the risks and rewards incident to ownership of the asset to the lessee are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payment using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in interest income in the statement of profit or loss.

2.6.9 Acquisitions and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized assets) and liabilities (including contingent liabilities) of the acquired business at fair value. A negative difference is recognised directly in the earnings for the year of the acquisition. Goodwill is measured as the excess of the sum of the consideration transferred the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Initially goodwill is measured at cost. Following initial recognition, the Bank runs an impairment test annually and measures goodwill at cost less any accumulated impairment.

An asset is identifiable if it is separable or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

If the subsidiaries acquired are later disposed of, the difference between the selling price and the net assets plus cumulated translation difference and goodwill is recognized in the statement of profit or loss.

2.6.10 Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any. Depreciation is charged to the statement of profit or loss in the period to which it

Notes to the Consolidated Financial Statements

relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Real estate	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.

2.6.11 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.

2.6.12 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.

2.6.13 Hedge transactions (according to IAS 39)

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

Notes to the Consolidated Financial Statements

Upon concluding the hedge contract the Bank drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets forth the method of measuring hedge effectiveness.

Once the hedge is established as relationship, the Bank assesses whether the hedge transaction is expected to be effective in the long term in meeting the fair value attributable to the risk hedged or in offsetting cash flow changes. Hedges are reviewed by the responsible banking department on a quarterly basis. A hedge transaction is considered effective if, as a result, the fair value attributable to the risk hedged or the cash flow change offset by the hedge is within a range of 80-125% in the period to which the hedge refers.

For the purposes of hedge accounting, hedges are classified into two categories:

- (a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and
- (b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

There are no net investment hedges in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Comprehensive Income Statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in the other comprehensive income item. The gains or losses on effective cash flow hedges recognized initially in other comprehensive income are either transferred to the statement of profit or loss in the period in which the hedged transaction affects the statement in the profit or loss, or are included in the initial measurement of the cost of the non-financial related asset or liability. The ineffective portion is recognized in the statement of profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net profit/loss for the period.

For hedges, which do not qualify for hedge accounting (economic hedges), any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of profit or loss for the period.

The following lines in the profit or loss statement contain the gains or losses in connection with the hedging instruments of hedges (swaps):

- (a) Interest income or interest expense
- (b) Gains or losses from foreign exchange transactions
- (c) The remaining change from fair value adjustment in Change in fair value of derivatives

2.6.14 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 rates applied are in accordance with the provisions of the Hungarian taxation law.

Notes to the Consolidated Financial Statements

2.6.15 *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.

2.6.16 *Classification into financial liabilities or shareholders' equity*

Financial liability is any liability that is:

- a contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
 - 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
 - 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.

2.6.17 *Financial liabilities carried at amortized cost*

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

Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortized cost. At initial measurement, they are recognized at fair value. After initial measurement, they are carried at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

2.6.18 *Financial liabilities carried at fair value other than derivatives*

On initial recognition the management designates the financial liabilities into financial liabilities classified at fair value through profit or loss category. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- the liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

Notes to the Consolidated Financial Statements

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). Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Change in fair value of derivatives'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR).

Included in this classification are mortgage bonds and bonds issued which are managed on a fair value basis, where the nominal value represents the contractually required payments. The change in fair value other than movement in portfolio or currency represents credit risk.

In case financial liabilities classified as measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) changes in fair value related to credit risk are recognised in consolidated statement of profit or loss.

2.6.19 Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when it is due in accordance with terms of a debt instrument.

Financial guarantee contracts are initially recognised in the financial statements within 'Provisions' 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 'Credit loss expense'.

2.6.20 Derecognizing of financial instruments

A financial asset (or a part of a financial asset or a group of financial assets) is derecognized 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.

A financial liability (or a part of a financial liability) is derecognized 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

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

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or have been transferred to third parties is reported in the profit or loss. (see g) point about modification in contractual cash flow)

2.6.21 Repurchase and reverse repurchase transactions

The Bank purchases securities under agreements to resell at a specified future date, these securities are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Due from banks', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the effective interest rate.

The Bank does not report securities provided to repo as a separate item in the balance sheet, only in the Notes.

2.6.22 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 related to business combinations is recognized in other operating expense.

2.6.23 Short term employee benefits

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.

2.6.24 Long term employee benefit plans- pensions

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 (mandatory contribution) and other personnel expenses (voluntary contribution) 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.

2.6.25 Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. Treasury shares are accounted for at weighted average cost. 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.

2.6.26 Share-based payment

The Bank has developed a share option scheme to remunerate its Directors, executives and specific managers for their services. The scheme involves transfer of treasury shares at a discount.

The Bank reports share option benefits extended in shares at the fair value on the day the benefit was approved by the Annual General Meeting (AGM), calculated by means of the methodology described in Note 32, in accordance with IFRS 2, Share-base Payment. The fair value of shares involved in the share option scheme but not yet delivered is recognized as expense (other personnel costs) as a separate line item against share option reserve under shareholders' equity for the period the benefit is earned.

Notes to the Consolidated Financial Statements

The cumulative expense on share option is based on the period earned until the balance sheet date and the Bank's estimate regarding the number of shares earned. In the case of treasury shares provided with market terms the Bank recognizes proceeds received from a party who meets all other requirements of earning irrespective of whether the market requirement is met or not.

2.6.27 *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 which 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 net carrying amount of the financial asset or financial 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.

Fees directly related to loans are reported in the calculation of effective interest rate. Fees referring only to a particular period are accrued. Fees attached to particular deliveries are considered as a lump sum once the criteria are met.

2.6.28 *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. This additional tax is reported in 'General and administrative expenses'.

Those loans which connect interest subsidy are measured at amortised cost, meet the requirement of the SPPI test, and the allowance is calculated according to expected credit loss model. (see the credit risk model in notes 36)

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:

- Mortgage loans granted by the Bank or with partner banks; and

Notes to the Consolidated Financial Statements

- 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.

2.6.29 Contingent liabilities / contingent assets

Consequent to the Group's business, contingent liabilities are not recognized in the financial statements but are presented in the Notes. They are disclosed unless the possibility of an outflow of resources embodying financial gains is remote. Contingent liabilities are reported in the balance sheet when it becomes probable.

Likewise, a contingent asset is not recognized in the financial statements but disclosed when an inflow of financial gains is probable.

2.6.30 Post balance sheet events

Post-balance sheet events that provide additional information about a Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the Notes when material.

2.6.31 Segment information

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses;
- (b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) for which discrete financial information is available.

Operating segments can engage in business activities that have not yet generated income; for instance foundation related transactions can be pre-income operating segments.

The Bank takes the following factors into consideration when determining whether services are interconnected: nature of services, type or group of clients buying the services, methods applied in the course of service provision, and the regulatory environment. The Bank presents each segment whose contribution to (internal and external) revenue, earnings or balance sheet total is material, in consideration of other material provisions of IFRS 8 (Note 40). The data related to the business segments of own lending and refinancing, are separated in the balance sheet (under Notes 19 and 20) and in the statement of profit or loss (under Note 4).

Geographical segmentation has also been analyzed. Since the revenue, earnings or balance sheet total of the German branch office is under 10%, no presentation of geographical segmentation has been made.

Notes to the Consolidated Financial Statements

2.6.32 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

2.6.33 Foreign currency translation

The reporting currency of the Bank is HUF referred to 2.3.

The Bank and its subsidiary recognize initially currency transactions in their functional currency valid on the transaction day. Monetary assets and liabilities denominated in currencies other than the company's functional currency are converted to the functional currency at the exchange rate on the balance sheet date. Any difference is reported in the profit or loss. Items other than monetary reported at cost are converted at the rate on the initial day of the transaction. Non-monetary items reported at fair value are converted at the rate on the date fair value was determined.

In the course of consolidation, assets and liabilities of foreign companies are converted to HUF on the reporting date at the NBH rate on the balance sheet date. Items of the profit or loss statement are converted at the annual weighted NBH rate. The currency difference is reported in other comprehensive income. The currency difference is released from other comprehensive income and transferred to profit or loss when the foreign company is dissolved or sold.

2.6.34 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 Group 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.

2.6.35 Bank tax

The credit institutions as financial institutions are taxable entities of the Act LIX of 2006 on the Introduction of Special Tax and Bankers' contribution intended to improve the Balance of Public Finances.

For tax years 2019 and 2018 the tax base is the total assets according to Hungarian Accounting Standards of the second financial year preceding the tax year (2017, 2016), which can be decreased by decreasing items under the Act.

The Bank tax is presented as other operating expense in the Consolidated Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

The special tax for financial institutions liability defined in accordance with the amount of special tax for credit institutions paid by Takarék Mortgage Bank Ltd. and Takarék Commercial Bank Ltd. in 2018.

2.7 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:

Notes to the Consolidated Financial Statements

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 35)

Share-based payment

When establishing the fair value of shares involved in the share option scheme the Bank assesses the allocation condition, the allocation price, and compliance with the trading and profit objectives. (Note 32)

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 11)

Loan impairment test and its result

The Group regularly assesses its financial instruments portfolio for impairment. Management determines the adequacy of the impairments based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology (see notes 36) is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

Impairment of other 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.

For more details see Notes 21 and 22.

Notes to the Consolidated Financial Statements

2.8 *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.

2.9 *Changes in the legal and regulatory environment and its effect on the financial statements of the Group*

With its 20/2015. (VI.29.) regulation, the Hungarian National Bank from 30 September 2019 raised the minimum level of the Mortgage Financing Indicator from 0.2 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 CHANGE IN ESTIMATES

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

Notes to the Consolidated Financial Statements
4 INTEREST AND SIMILAR INCOME AND EXPENSE

	2019	2018
Interest income		
Loans and advances to customers at amortised cost and fair value	4,013	5,439
Refinanced mortgage loans	2,573	2,338
Due from banks	8	18
<i>Interest income on assets carried at amortised cost</i>	6,594	7,795
Securities at fair value through profit or loss		
Securities at fair value through other comprehensive income	549	759
Interest on derivative transactions	1,756	1,139
<i>Interest income on assets carried at fair value</i>	2,305	1,898
Total	8,899	9,693

Accrued interest receivable on stage 3 impaired loans amounted to HUF 21 million in 2019 according to IFRS 9. Accrued interest receivable on impaired loans amounted to HUF 62 million in 2018.

	2019	2018
Interest expense		
Mortgage bonds	6,344	6,070
Due to banks	19	31
Interest paid on deposits	0	0
Interest on bonds	175	361
Interest expense on leases	1	0
<i>Interest expense on liabilities carried at amortised cost</i>	6,539	6,462
Interest on derivative transactions	803	715
Mortgage bonds	271	723
Interest on bonds		
<i>Interest expense on liabilities carried at fair value</i>	1,074	1,438
Total	7,613	7,900

The interest income from loans and refinanced mortgage loans includes HUF 941 million interest subsidy in 2019 (2018: HUF 1,642 million).

Notes to the Consolidated Financial Statements
5 FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
Fee and commission income		
Mortgage loans of the Bank	146	157
Refinanced mortgage loans	89	73
Handling commission	34	62
Real estate appraisal fee	136	89
Treasury services*	1,407	0
Other	-	2
Total	1,813	383

*gains from the closed derivatives transaction before maturity

	2019	2018
Fee and commission expense		
Real estate appraisal fee	293	262
Agency fees and commissions	10	39
Treasury services	781	181
Fees and commissions to banks and to clearing house	8	7
Other	-	13
Total	389	502

6 OTHER OPERATING INCOME

	2019	2018
Reversal of provision*	58	642
Income from sold inventory and inventory	19	41
Rental income on property	2	-
Invoiced expenses and services	726	977
Tax refunds for previous years	-	105
Other	36	56
Total	841	1,821

*The main part of reversal of provision is connected to the change of the contractual obligation related to IT software, the booked fee increased the maintenance cost in 2018.

Notes to the Consolidated Financial Statements
7 OTHER OPERATING EXPENSE

	2019	2018
Bank tax (detailed in a) below)	74	156
Other payable taxes and contributions*	182	150
Invoiced expenses and services	42	21
Extraordinary depreciation	113	-
Impairment of non-financial assets	-	3
Provision for expected liabilities (Note 30)	-	8
Expenses for the previous year	42	-
Tax penalty, late penalty	2	4
Supervisory and other fees	356	286
Loss on sold inventory	-	27
Loss on damages compensations paid	2	12
Other	89	25
Total	902	692

*Include the local business tax and the innovation contribution in 2018 and in 2019.

a) Bank tax

The amount of Bank tax booked for 2019 by group members is detailed in the following table:

	2019	2018
Takarék Mortgage Bank Plc.	74	156
Takarék Commercial Bank Ltd.*	-	2,781
Total	74	2,937

*Include the obligation of financial transaction levy, based on the Act CXVI. of 2012.

Notes to the Consolidated Financial Statements
8 GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2019	2018
Staff costs	9	318	413
Marketing and advertising		127	2
General and administrative costs		717	509
Rental fee	10	21	533
Depreciation	21,22,23	167	117
Consultancy fees		333	875
Maintenance costs		836	851
Other taxes		6	9
Insurance fees		8	10
Database system usage		29	31
Other		76	99
Total		2,658	3,449

9 STAFF COSTS

	2019	2018
Wages and salaries	259	311
Social security contribution	50	75
Other personnel related payments	9	27
Total	318	413

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: 724 consolidated, 36 non-consolidated).

Notes to the Consolidated Financial Statements
10 RENTAL FEE (OPERATING LEASE)
Non-cancellable operating leases

The operating lease agreement of the registered office expires on 31 December 2019.

	31 December 2019	31 December 2018
	Minimum lease payments	Minimum lease payments
Within 12 month	-	2,403
Between 1 and 5 years	-	800
Over 5 years	-	758
Total	-	3,961

These lease agreements are connected to Takarék Commercial Bank Ltd, the investment in this subsidiary are sold in 2019, so the non-cancellable operating leases reduce to zero.

	Minimum lease payments	Contingent rents	Sublease payments	Total
Expense in the period 2019	21	-	-	21
Expense in the period 2018	927	-	(12)	914

Notes to the Consolidated Financial Statements
11 INCOME TAX

	31 December 2019	31 December 2018
Current income tax	-	-
Corporate income tax*	-	-
Deferred tax expense from continuing operation	219	82
Deferred tax expense from discontinued operation	-	81
Total	219	163

*The local business tax and the innovation contribution are presented on the "Other operating expense" line in the Consolidated Statement of Profit or Loss in 2019 and in 2018.

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:

The Act LXXXII of 2016 on the amendment of Act LXXXI of 1996 on Corporate Tax Act modified the tax rate from 19% to 9%.

Based on this information the Group 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 Group 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
<i>Profit/ (Loss) before tax</i>	<i>1,008</i>	<i>6,749</i>
Calculated corporate income tax (9%)	91	607
Items modifying the Hungarian tax base	117	(786)
Effect from discontinued operation	(368)	-
Effect of the reduction of the available taxable profit	379	274
Effect of other modifications	-	68
Total income tax expense/(benefit)	219	163

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

Notes to the Consolidated Financial Statements
Deferred tax position

	31 December 2019				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Effect of corporate tax of IFRS adoption	-	117	(117)	117	-
Items modifying corporate tax base	-	(24)	24	(1,014)	-
Disbursement fee	-	-	-	44	-
Derivatives	-	-	-	115	-
Impairment	-	-	-	(180)	-
Suspended interest	-	-	-	42	-
Cash-flow hedge	-	-	-	2	-
Effect of consolidation	-	-	-	319	-
AFS securities	-	-	-	(31)	-
Effect of discontinued operation	-	-	-	367	-
Net deferred tax position	-	93	(93)	(219)	-

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

Notes to the Consolidated Financial Statements

	31 December 2018				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	(44)	-	(44)	(69)	-
Derivatives	(115)	-	(115)	(235)	-
Impairment	180	-	180	300	-
Suspended interest	(42)	-	(42)	115	-
Acquisition	-	-	-	38	-
Tax loss carried forward	(2)	-	(2)	-	(2)
Effect of consolidation	990	-	990	(274)	-
AFS securities	(319)	-	(319)	(50)	-
Deferred tax of foreign subsidiaries	31	-	31	12	33
Net deferred tax position	679	-	679	(163)	31

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

Notes to the Consolidated Financial Statements
12 OTHER COMPREHENSIVE INCOME
Components of other comprehensive income

	31 December 2019	31 December 2018
Other comprehensive income		
Cash-flow hedge reserve	(31)	25
including: change in fair value	(31)	25
including: reclassification to profit or loss	(31)	-
Securities at fair value through other comprehensive income	66	(368)
including: change in fair value	(665)	(504)
including: reclassification to profit or loss	731	136
Foreign currency translation	-	-
Deferred tax effect	(3)	31
Total	32	(312)

Deferred tax effects relating to other comprehensive income

	31 December 2019			31 December 2018		
	Before tax amount	Deferred tax	Net of tax amount	Before tax amount	Deferred tax	Net of tax amount
Other comprehensive income						
Cash-flow hedge reserve	(31)	3	(28)	25	(2)	23
Securities at fair value through other comprehensive income	66	(6)	60	(368)	33	(335)
Total	35	(3)	32	(343)	31	(312)

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

Notes to the Consolidated Financial Statements
13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group has introduced the new IFRS 9 standard since 1 January 2018, the classification and the reconciliation of carrying amounts of financial assets and liabilities to IFRS 9 are reported below:

Classification of carrying amounts of financial assets and liabilities according to IFRS 9

	Notes	31. December 2018
Financial assets		
<i>Cash and cash equivalents</i>		3,157
<i>Financial assets held for trading</i>		3,962
- Derivative financial assets	35	3,962
<i>Non-trading financial assets mandatorily at fair value through profit or loss</i>		164
- Loans and advances to customers at fair value	20	164
<i>Financial assets at fair value through other comprehensive income</i>		192,142
- Securities at fair value through other comprehensive income	16	192,142
<i>Financial assets at amortised cost</i>		541,463
- Balances with the National Bank of Hungary	14	2,073
- Due from banks	15	61,664
- Refinanced mortgage loans	19	105,296
- Loans and advances to customers at amortised cost	20	372,430
Total financial assets		740,888
Financial liabilities		
<i>Financial liabilities held for trading</i>		2,371
- Derivative financial liabilities	35	2,371
<i>Financial liabilities classified at fair value through profit or loss</i>		6,693
- Financial liabilities at fair value through profit or loss, other than derivatives	27	6,693
<i>Financial liabilities measured at amortised cost (other financial liabilities)</i>		675,381
- Due to banks	25	156,659
- Deposits from customers	28	304,333
- Issued securities	26	214,389
Total financial liabilities		684,445

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

Notes to the Consolidated Financial Statements
14 BALANCES WITH THE NATIONAL BANK OF HUNGARY

	31 December 2019	31 December 2018
Short term deposits	-	-
Nostro account at National Bank of Hungary	915	2,071
Accrued interest for the period	-	2
Total	915	2,073

15 DUE FROM BANKS

	31 December 2019	31 December 2018
Nostro accounts	155	2,706
Term deposits	17,412	58,967
Accrued interest for the period	-	6
IFRS 9 impairment	(1)	(15)
Total	17,566	61,664

16 SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Hungarian Government bonds	30,900	152,995
Hungarian Discount Treasury bills	-	12,409
Domestic issued bonds	12,826	18,712
Mortgage bonds	-	5,600
Investment funds	-	443
Foreign bank bonds	-	1,705
Equity investments classified as FVOCI	10	292
IFRS 9 impairment	(2)	(15)
Total	43,734	192,142

Equity investments include shares of SZHISZ for HUF 10 million as at 31 December 2019. (2018: HUF 292 million, shares of SZHISZ for 20 million, shares of Garantiqa Creditqurantee Ltd. for HUF 30 million, as well as SWIFT shares for HUF 1 million and VISA Europe shares for HUF 241 million). The investments represent less than 1% stake in the companies, these securities are classified as FVOCI category in 31 December 2019.

Notes to the Consolidated Financial Statements
17 SALE AND PURCHASE OF SUBSIDIARIES, CHANGE IN THE GROUP OWNERSHIP INTEREST IN SUBSIDIARIES
Purchase of subsidiaries, change in the group ownership interest in subsidiaries

The Takarék Commercial Bank Ltd - amortised cost as at 1 January 2018 35,282 HUF million, impairment 3,304 HUF million – sold. During the reporting period, the subsidiary was sold at book value

Takarek Commercial Bank Ltd.

31 October 2019	Book value
<i>Assets</i>	
Cash, cash balances at central banks and other demand deposits	14,651
Financial assets held for trading	33
Non-trading financial assets mandatorily at fair value through profit or loss	130
Financial assets at fair value through other comprehensive income	72,324
Financial assets at amortised cost	446,413-
Derivatives – Hedge accounting	8
Investments in subsidiaries, joint ventures and associates	350
Tangible assets	2,562
Goodwill and other intangible assets	3
Tax assets	344
Other asset	3,343
<i>Liabilities</i>	
Financial liabilities held for trading	44
Financial liabilities measured at amortised cost	503,912
Derivatives - Hedge accounting	2,281
Provisions	3,736
Tax liabilities	13
Other liabilities	2,815
Net assets disposed of	27,360

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

Notes to the Consolidated Financial Statements

31 October 2019	Book value
Consideration received in cash	31,978
Net cash inflow on disposal of a subsidiary	
Net assets disposed of	27,360
Consideration received in cash	31,978
Net cash inflow	4,618

The combined result of the discontinued operations included in the profit for the year is set out below. The comparative profit and cash flows from the discontinued operations have been re-presented to include those operations classified as discontinued at the end of current year.

Profit for the year of discontinued operations 2019:

31 October 2019	Takarek Commercial Bank Ltd.
Net interest income	9,789
Net fee and commission income	5,257
Operating Income, net	16,494
Profit before tax	1,713
Attributable income tax expenses	-
Profit after tax	1,713
Consolidation profit*	2,669
Reverse of non- controlling interest*	12,517
Gain on disposal of operation	4,618
Profit for the year from discontinued operations	21,517

* Consolidated figures

Notes to the Consolidated Financial Statements

Profit for the year of discontinued operations 2018:

31 December 2018	Takarék Commercial Bank Ltd.
Net interest income	12,455
Net fee and commission income	6,052
Operating Income, net	19,851
Profit before tax	1,560
Attributable income tax expenses	(570)
Profit after tax	990
Consolidation profit*	974
Profit for the year from discontinued operations	1,964

* Consolidated figures

18 SECURITIES AT AMORTIZED COSTS

	31 December 2019	31 December 2018
Domestic issued bonds	999	-
Total	999	-

19 REFINANCED MORTGAGE LOANS

Act L of 2001, which amended other acts providing for financial organizations, introduced substantial changes to Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, modifying the role of commercial banks in the provision of mortgage loans. The substance of the amendment was, that the self-lien backed receivables appeared as collateral for mortgage bonds, parallel the modified act allowed the sale and purchase of these self-liens themselves. Thus mortgage banks are able to refinance the mortgage loans of commercial banks.

The Bank signed contracts with several major Hungarian commercial banks to refinance mortgage loans; hence state subsidized the mortgage loans are available through the entire network of these commercial banks. Later, Takarék Mortgage Bank refinanced also market rate (not supported) mortgage loans. In 2018, the refinanced portfolio changed significantly due to the MFAR (Mortgage funding adequacy ratio) indicator coming into force on 1 April 2017 (20/2015 and 6/2016 NBH decrees), as a result the refinancing activity of Takarék Mortgage Bank has been highly active. By the end of 2019 the number of refinanced bank partners increased to 11. As a result, the refinanced loan portfolio of the Mortgage Bank increased by 28.12% and amounted to HUF 216.98 billion (without the refinanced loan portfolio of Takarék Commercial Bank) at the end of the year.

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

Notes to the Consolidated Financial Statements

20 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019	31 December 2018
Housing loans	48,588	130,261
General purpose mortgage loans	9,455	65,438
Customer loans and overdrafts	-	13,062
Loans to employees	764	923
Loans to companies at amortised cost	9	169,641
Loans and advances to customers at amortised cost gross subtotal	58,816	379,325
Loans to companies at fair value	-	164
Loans gross subtotal	58,816	379,489
Fair value adjustment of hedged items	-	240
Accrued part of disbursed loans under Funding of Growth Scheme*	-	-
Derecognition**	-	(336)
Accrued interest**	-	5,206
Amortized origination cost**	-	610
Loans gross total	58,816	385,209
Loan impairment	(988)	(12,615)
Loan portfolio reported	57,828	372,594

*The disbursed loans under Funding for Growth Scheme started in June 2013. Related to Funding of Growth Scheme the total disbursed loan is HUF 28.5 billion at the end of year 2016. The Bank booked these disbursed loans and the liabilities to NBH at fair value at initial recognition, and accrued the difference between fair value and contractual value until the end of maturity in line with IFRS 9.B5.1.2A. The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other assets in 2018.

** These are the part of loans and advances to customers at amortised cost gross at 31 December 2019.

Loan impairment based on individual rating: HUF 377 million (2018: HUF 2,468 million), based on portfolio rating: HUF 611 million (2018: HUF 10,147 million).

The aggregate amount of stage 3 loans was HUF 2,784 million as of 31 December 2019 (31 December 2018: HUF 22,495 million the non-performing loans).

Within the total balance of mortgage loans 99.98% have maturity over five years (2018: 99.46%), exceeding the minimum level of 80% that is required by the Section 5(1) of Act XXX of 1997 on Mortgage Loan companies.

The total outstanding mortgage loan principal does not exceed 70% of the aggregate collateral value of real estate determined at loan disbursement that is required by the Section 5(3) of Act XXX of 1997 on Mortgage Loan Companies. As of 31 December 2019, loan to value is 32.28% (31 December 2018: 29.38%).

Notes to the Consolidated Financial Statements

21 TANGIBLE ASSETS 31 DECEMBER 2019

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	3,409	1,132	4,541
Increase	24	30	54
Decrease	(26)	(156)	(182)
Discontinued operations adjustment	(3,049)	(586)	(3,635)
Closing balance	358	420	778
Depreciation			
Opening balance	1,038	724	1,762
Annual depreciation from continuing operation	53	23	76
Annual depreciation from discontinued operation	82	31	113
Decrease	(27)	(11)	(38)
Discontinued operation adjustment	(798)	(438)	(1,236)
Closing balance	348	329	677
Impairment			
Opening balance	484	124	608
Increase*	-	-	0
Decrease	-	-	0
Discontinued operations adjustment	(484)	(124)	(608)
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.

The tangible assets in the Consolidated Statement of Financial Position contain the right-of use assets according to IFRS 16. The right-of use assets carrying amount are 56 million HUF as at 31 December 2019. (see note 23)

Notes to the Consolidated Financial Statements

TANGIBLE ASSETS 31 December 2018

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	3,515	1,390	4,905
Increase	58	142	200
Decrease	(164)	(400)	(564)
Closing balance	3,409	1,132	4,541
Depreciation			
Opening balance	918	806	1,724
Annual depreciation	139	73	212
Decrease	(19)	(155)	(174)
Closing balance	1,038	724	1,762
Impairment			
Opening balance	210	124	334
Increase*	274	-	274
Decrease	-	-	-
Closing balance	484	124	608
Net value	1,887	284	2,171

*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.

Notes to the Consolidated Financial Statements

22 INTANGIBLE ASSETS 31 DECEMBER 2019

	Software	Other intangible assets	Total
Gross value			
Opening balance	2,181	163	2,344
Increase	-	-	-
Decrease	(321)	-	(321)
Discontinued operations adjustment	(622)	(99)	(721)
Closing balance	1,238	64	1,302
Depreciation			
Opening balance	1,602	6	1,608
Annual depreciation from continuing operation	36	-	36
Annual depreciation from discontinued operation	-	1	1
Increase/ (-)Decrease	(123)	153	30
Discontinued operation adjustment	(622)	(96)	(718)
Closing balance	893	64	957
Impairment			
Opening balance	579	122	701
Increase	104	-	104
Decrease	-	-	0
Discontinued operations adjustment	(579)	(122)	(701)
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. The impairment of this year connected to IT software where the recoverable amount is lower than the net assets. The impairment is presented on the "Other operating expense" line in the Consolidated Statement of Profit or Loss in 2019.

Notes to the Consolidated Financial Statements

INTANGIBLE ASSETS 31 December 2018

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	2,738	429	645	3,812
Increase	-	2	-	2
Decrease	(557)	(268)	-	(825)
Derecognize of intangible assets due to disposal	-	-	-	-
Closing balance	2,181	163	645	2,989
Amortisation				
Opening balance	1,602	150	231	1,983
Annual amortisation	42	2	32	76
Decrease	(363)	(178)	-	(541)
Closing balance	1,281	(26)	263	1,518
Impairment				
Opening balance	579	122	-	701
Increase	-	-	382	382
Reversal	-	-	-	-
Closing balance	579	122	382	1,083
Net value	321	67	-	388

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. The impairment of 2018 connected to the agency cooperation where the recoverable amount is lower than the net assets. The impairment is presented on the "Other operating expense" line in the Consolidated Statement of Profit or Loss in 2018.

23 IFRS 16 LEASES

Right-of-use asset

	31 December 2019	1 January 2019
Owned property, plant and equipment	101	2,171
Right-of-use assets, other than investment properties	56	1,264
Total property, plant and equipment	157	3,435

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

Notes to the Consolidated Financial Statements
Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2019	1 January 2019
Short term	21	717
Long term	49	560
Total lease liabilities	70	1,277

Maturity analysis - undiscounted contractual payments

	31 December 2019	31 December 2018
up to 1 year	21	728
1 year to 5 years	49	500
over 5 years	0	81
Total undiscounted lease liabilities	70	1,309

Right-of-use asset

	Property	Company Car	Total
Opening balance at 1 January 2019	1,253	11	1,264
Increase	70	19	89
Annual amortization from continuing operation	(54)	-	(54)
Annual amortization from discontinued operation	(560)	(1)	(561)
Decrease	(25)	(10)	(35)
Discontinued operation adjustment	(629)	(18)	(647)
Balance at 31 December 2019	55	1	56

Total cash outflow for leases

	2019
Cash outflow from continuing operation	(42)
Cash outflow from discontinued operation	(571)
Total cash outflow for leases	(613)

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

Notes to the Consolidated Financial Statements
Items related to lease liabilities presented in profit or loss

	31 December 2019
Interest expense on the lease liabilities from continuing operation	(1)
Interest expense on the lease liabilities from discontinued operation	(10)
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, except the expense relating to short-term leases of low-value assets	-
Gains or losses arising from sale and leaseback transactions	-
Total	(11)

Items presented in the statement of cash flows

	31 December 2019
Interest expense on the lease liabilities	(11)
Cash payments for the principal portion of the lease liability	(613)

24 OTHER ASSETS

	31 December 2019	31 December 2018
Prepaid expenses	222	1,362
Reclaimable taxes	1	845
Settlements with the Hungarian State	414	124
Reposessed collateral	2	103
Debtors	629	499
Deposits	260	3,354
Accrued part of disbursed loans under Funding of Growth Scheme*	-	2,944
Other	93	1,158
Total	1,621	10,390

* The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other assets in 2018. In case of properties held for sale and reposessed collaterals the Group endeavours to sell the properties as soon as possible.

Notes to the Consolidated Financial Statements

25 DUE TO BANKS

	31 December 2019	31 December 2018
Long term loans received	-	17,193
Short term loans received	3,119	139,465
Accrued interest	-	1
Total	3,119	156,659

26 ISSUED SECURITIES

The Group reports mortgage bonds and bonds that are recognised at amortised cost on 'Issued securities' line in the statement of financial position.

	31 December 2019		31 December 2018	
	Gross book value	Face value	Gross book value	Face value
Non-listed mortgage bonds				
Fixed interest	3,972	3,824	16,480	16,449
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	218,819	214,137	177,406	176,200
Floating interest	43,138	43,017	10,067	10,072
Total mortgage bonds	265,929	260,978	203,953	202,721
Non-listed bonds				
Fixed interest	-	-	-	-
Floating interest	-	-	-	-
Subordinated bonds				
	-	-	-	-
Listed bonds				
Fixed interest	-	-	5,836	5,786
Floating interest	-	-	-	-
Total bonds	-	-	5,836	5,786
Accrued interest (<i>mortgage bonds</i>)*	-	-	4,431	-
Accrued interest (<i>bonds</i>)	-	-	169	-
Total issued securities	265,929	260,978	214,389	208,507

*These are part of gross book value of mortgage bonds.

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

Notes to the Consolidated Financial Statements

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 accordance with the requirements set forth in the Jht, the Bank shall at all times maintain:

- (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 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.

Notes to the Consolidated Financial Statements
27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, EXCEPT DERIVATIVES

The Group 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. (Description is included in Point 26 of Notes.)

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	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	6,552	5,768	6,693	5,787
Floating interest	-	-	-	-
Total mortgage bonds	6,552	5,768	6,693	5,787
Total Financial liabilities at fair value through profit or loss, except derivatives	6,552	5,768	6,693	5,787

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).

28 DEPOSITS FROM CUSTOMERS

As a lending institution the Bank holds deposits from clients. The deposit portfolio is as follows:

	31 December 2019	31 December 2018
Current accounts	-	198,416
Term deposits	-	105,839
Accrued interest	-	78
Total	-	304,333

These deposit agreements are connected to Takarék Commercial Bank Ltd., the investment in this subsidiary are sold in 2019, so the deposits reduce to zero.

Notes to the Consolidated Financial Statements
29 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 (Note 36) or in other operating expense (Note 7).

2019	Credit risk provision	Contractual obligation	Other provision	Expected costs of legal cases	Total
Opening balance	1,267	2,122	583	16	3,988
Increase in the period continuing operation	2	-	9	-	11
Increase in the period discontinued operation	390	12	91	9	502
Utilization in the period continuing operation	(10)	(56)	(6)	(2)	(74)
Utilization in the period discontinued operation	(75)	-	(93)	(13)	(181)
Discontinued operations adjustment	(1,571)	(1,581)	(575)	(10)	(3,737)
Closing balance	3	497	9	-	509

The credit risk provision in 2019 is attributable to the off-balance sheet items.

Notes to the Consolidated Financial Statements

2018	Credit risk provision	Contractual obligation	Other provision	Expected costs of legal cases	Total
Opening balance	674	4,905	630	42	6,251
Increase in the period	1,472	2,123	572	10	4,177
Utilization in the period	(879)	(4,906)	(619)	(36)	(6,440)
Closing balance	1,267	2,122	583	16	3,988

30 OTHER LIABILITIES

	31 December 2019	31 December 2018
Taxes payable	-	512
Creditors	73	107
Accrued expenses	328	1,736
Liability from investments services	-	4
Customer loan prepayments	591	840
Repo liability	-	3,767
Accrued part of disbursed liabilities under Funding for Growth Scheme*	-	2,061
Other	167	1,820
Total	1,159	10,847

* The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other liabilities in 2018, it has been reclassified from Due to banks

Notes to the Consolidated Financial Statements
31 SHARE CAPITAL

In the year of 2018 the ownership structure of the Bank Group was significantly altered. The MTB Magyar Takarékszövetkezeti Bank Ltd. purchased the majority of the Bank's shares, as a result of these transaction it has the sole managing owner.

As of 31 December 2019 the Bank's share capital consists of series "A", "B" and "C" shares. The ownership structure of the Bank as at 31 December 2019 and 31 December 2018 was as follows:

Shareholder	31 December 2019		31 December 2018	
	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares (Series "A" listed)				
Domestic institutional investors	52.6	57,069,304	50.45	54,735,748
Foreign institutional investors	0.02	20,576	0.02	126,899
Domestic private investors	3.47	3,759,643	3.47	5,750,222
Foreign private investors	0.06	60,400	0.06	39,388
Employees, directors and senior management	0.0	-	0.0	-
Government held owner	4.46	4,832,225	4.46	4,832,225
Treasury shares	0.23	253,601	0.23	253,601
Other	0.0	4,261	0.23	250,410
<i>Subtotal</i>	<i>60.84</i>	<i>66,000,010</i>	<i>60.84</i>	<i>66,000,010</i>
Dividend preference shares (Series "B" non-listed)				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
<i>Subtotal</i>	<i>13.05</i>	<i>14,163,430</i>	<i>13.05</i>	<i>14,163,430</i>
Ordinary shares (Series "C" non-listed)				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
<i>Subtotal</i>	<i>26.11</i>	<i>2,832,686</i>	<i>26.11</i>	<i>2,832,686</i>
	100.0	82,996,126	100.0	82,996,126

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

Notes to the Consolidated Financial Statements
31.1 The following amounts were used in the calculation of earnings per share:

	31 December 2019	31 December 2018
Profit of shareholders of the Bank from continuing operation	789	4,935
Change of general reserve	(215)	(252)
Attributable profit	574	4,683
Weighted average number of shares	108 236 699	108 236 699

Earnings per share ratio is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares. For the diluted earnings per share figure the profit attributable to shareholders and the weighted average number of shares outstanding needs to be adjusted by all of the potentially diluting securities. For the normal earnings per share figure the profit attributable to shareholders means the result for the year decreased by the amount of the general reserves which is divided by the number of the shares excluding the number of the treasury shares by the Bank. Shares to managers on the context of the share-based payment are allocated from Treasury shares and require no new issues and thus have no diluting effect on EPS. The Bank has no dilutive potential ordinary shares. Earnings per share figure therefore equals to the diluted earnings per share figure.

31.2 Treasury shares purchased

	31 December 2019	31 December 2018
Opening balance	207	207
Purchase	-	-
Closing balance	207	207

31.3 Other reserves

	Note	31 December 2019	31 December 2018
Share premium		27,926	27,926
General reserve	33	927	712
Cash-flow hedge reserve		-	28
Change in fair value of financial assets at fair value through other comprehensive	31	992	932
Total other reserves		29,845	29,598

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

Notes to the Consolidated Financial Statements
31.4 Securities at fair value through other comprehensive income reserve

	31 December 2019	31 December 2018
Opening balance	932	1,267
Net unrealised gains on securities at fair value through other comprehensive income	(665)	(502)
Net realised losses on securities at fair value through other comprehensive income	731	136
Deferred tax	(6)	31
Closing balance	992	932

31.5 Non-controlling interest

	31 December 2019	31 December 2018
Opening balance	12,517	12,828
Dividend payment to NCI	-	-
Share of profit/(loss) of the year	-	(311)
Selling of subsidiary Takarék Commercial Bank Ltd	(12,517)	-
Closing balance	0	932

Non-controlling interest detailed by subsidiaries at 2018

Name of the subsidiary	The proportion of ownership interests held by non-controlling interests	The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period	Accumulated non-controlling interests of the subsidiary at the end of the reporting period
Takarék Commercial Bank Ltd.	49%	(315)	12,517
Magyar Kártya Szolgáltató Ltd.	1%	4	-
Total	-	(311)	12,517

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

Notes to the Consolidated Financial Statements

32 SHARE-BASED PAYMENTS

Share options are granted to employees and also others providing similar services, it is difficult to estimate the fair value of those benefits that are coming from these services, therefore the Group measures the fair value by reference to the fair value of the equity instruments granted.

The Group hasn't got approved share based incentive scheme in 2019 and in 2018.

33 GENERAL RESERVE

In accordance with statutory requirements, the Bank and other credit institutions within the Group are 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 2018 (General reserve was HUF 712 million as at 31 December 2018). The other reserves are presented in Notes 31.

34 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 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 Group:

	31 December 2019	31 December 2018
Guarantees	-	5,414
Granted bail	110	-
Loan commitments	18,094	99,445
Total	18,204	104,859

Notes to the Consolidated Financial Statements

35 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.

The following shares disclosed under investment.

Equity investments include shares of SZHISZ for HUF 10 million (2018: HUF 292 million, shares of Garantiqa Creditguarantee Ltd. for HUF 30 million, as well as SWIFT shares for HUF 1 million and VISA Europe shares for HUF 241 million)

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.

35.1 Loans and advances to customers at amortised cost and refinanced mortgage loans:

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.

Notes to the Consolidated Financial Statements

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Refinanced mortgage loans	217,205	217,205	105,296	105,296
Loans and advances to customers at amortised cost	57,828	64,016	372,737	373,918

35.2 Fair value of mortgage bonds and bonds carried at amortised cost

The fair value of mortgage bonds and bonds is calculated by the Bank on a cash flow basis. In the calculations the Bank identifies the cash flows of the mortgage bonds discounted by the valuation yield curve. This is considered as the fair value of mortgage bonds.

In case of floating rate mortgage bonds the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal repayments are discounted to present value using the valuation yield curve.

For the valuation yield curve the Bank calculates the yield of own securities – denominated in Hungarian forint and Euro taking into account secondary market quotations, the yields of the secondary deals and the spreads regarding to the issues on primary markets. Based on these yields the Bank position management system calculates the yield curves for the different currencies and bond types (mortgage bond and several unsecured bonds).

The change in fair value is mainly due to the changes in market conditions. Based on this the change in fair value attributable to credit risk is not material.

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	31 December 2019		31 December 2018	
	Bookvalue	Fair value	Book value	Fair value
Non-listed mortgage bonds				
Fixed interest	3,972	3,977	17,528	17,955
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	218,819	225,475	180,772	182,491
Floating interest	43,139	42,988	10,086	10,107
Total mortgage bonds	265,929	272,440	208,385	210,553
Non-listed bonds				
Fixed interest	-	-	-	-
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	-	-	6,004	6,153
Floating interest	-	-	-	-
Total bonds	-	-	6,004	6,153
Total issued security	265,929	272,440	214,389	216,706

Book value also includes the accrued interests.

35.3 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.

Notes to the Consolidated Financial Statements
35.4 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. CCIRs 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
Derivatives designated as cash-flow hedges				
Positive fair value of cash flow hedges	-	1	-	33
Including:				
CCIRs	-	1	-	33
Swap deals classified as HFT				
Positive fair value of trading swaps	175	3,961	15,294	103,796
Including:				
CCIRs	22	-	2,342	-
Including: IRS	97	3,941	4,841	103,153
Including: FXS	56	20	8,111	643
Fair value hedge				
Positive fair value of IRS fair value hedge	2,676	-	49,650	-
Including: CCIRs	-	-	-	-
Including: IRS	2,676	-	49,650	-
Forward deals				
Positive fair value of forward deals	-	-	-	-
Total derivative financial assets	2,851	3,962	64,944	103,828

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

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	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Derivatives designated as cash-flow hedges				
Negative fair value of cash flow hedges	-	(11)	-	1,475
Including: CCIRS	-	(11)	-	1,475
Swap deals classified as HFT				
Negative fair value of trading swaps	(136)	(1,896)	12,952	127,286
Including: CCIRS	-	-	-	-
Including: IRS	(39)	(1,896)	7,960	127,286
Including: FXS	(97)	-	4,992	-
Fair value hedge				
Negative fair value of fair value hedges	(287)	(464)	4,799	29,577
Including: CCIRS	-	-	-	-
Including: IRS	(287)	(464)	4,799	29,577
Forward deals				
Negative fair value of forward deals	-	-	-	26
Total derivative financial liabilities	(423)	(2,371)	17,751	158,363

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

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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. (The table as at December 31, 2018 contains consolidated data.)

35.5 Fair value hedge transactions
31 December 2019

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

In 2018 two new IRS was designated as hedging instrument in fair value hedge connection.

31 December 2018

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	loans and advances to customers	(262)	15,575	(240)	240
IRS	available-for-sale asset	(202)	11,029	(99)	99

All figures in tables are in HUF million except otherwise noted

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Notes to the Consolidated Financial Statements
35.6 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 following table shows an analysis of financial instruments carried at fair value.

	31 December 2019		
	Level 1	Level 2	Level 3
Assets			
Securities at fair value through other comprehensive income	43,734	-	-
Derivative financial assets	-	2,851	-
Total assets carried at fair value	43,734	2,851	-

Liabilities			
Derivative financial liabilities	-	423	-
Financial liabilities at fair value through profit or loss, except derivatives	-	6,552	-
Total liabilities carried at fair value	-	6,976	-

	31 December 2018		
	Level 1	Level 2	Level 3
Assets			
Securities at fair value through other comprehensive income	191,699	443	-
Derivative financial assets	-	3,961	1
Total assets carried at fair value	191,699	4,404	1

Liabilities			
Derivative financial liabilities	-	2,360	11
Financial liabilities at fair value through profit or loss, except derivatives	-	6,693	-
Total liabilities carried at fair value	-	9,053	11

All figures in tables are in HUF million except otherwise noted

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36 RISK MANAGEMENT

36.1 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 (Szhity) the Integration Organisation and its members are required to accept joint and several responsibility for each other's obligations according to Ptk. 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 Szhity the Integration Organisation and its members are under the combined supervision according to Hpt.

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 Szhity the integration of cooperative financial institutions 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 Magyar Takarékszövetkezeti Bank Zrt. is mandatory for credit institutions and companies under consolidated supervision led by MTB Magyar Takarékszövetkezeti Bank Zrt. – 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

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- 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.

36.2 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 Committee

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.

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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.

36.3 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.

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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.

Maximum credit risk exposure based on gross outstanding balances:

	31 December 2019	31 December 2018
Balances with the National Bank of Hungary	915	2,073
Dues from banks	17,566	61,664
Financial assets at fair value through profit or loss	-	-
Securities at fair value through other comprehensive income	43,734	192,142
Derivative financial assets	2,851	3,962
Refinanced mortgage loans	217,205	105,296
Loans and advances to customers at amortised cost and fair value	58,596	379,489
Other assets	1,621	10,390
Total	342,488	755,016
Off-balance sheet commitments	18,204	104,859
Total	18,204	104,859
Total credit risk exposure	360,692	859,875

36.4 CREDIT RISK

IFRS 9 replaces the rules under IAS 39 for impairment. 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.

All figures in tables are in HUF million except otherwise noted

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Notes to the Consolidated Financial Statements

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.

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.

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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 occurs when:

- the obligation is more than 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 contract 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.

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Writte off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety 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.

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 counterparty, 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.

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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

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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.

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IFRS 9 credit risk tables are presented below.

Gross carrying amount movement table- Balance Sheet - 31 December 2019

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Gross carrying amount as at 1 January 2019	715,497	11,047	22,495	353	749,392
Transfers:					
Transfer from Stage 1 to Stage 2	(818)	741	-	-	(77)
Transfer from Stage 1 to Stage 3	(233)	-	206	-	(27)
Transfer from Stage 2 to Stage 3	-	(242)	235	-	(7)
Transfer from Stage 3 to Stage 2	-	107	(118)	-	(11)
Transfer from Stage 2 to Stage 1	191	(221)	-	-	(30)
Transfer from Stage 3 to Stage 1	419	-	(462)	-	(43)
Changes in EAD	42,672	460	(98)	-	43,034
Financial assets derecognised during the period other than write-offs	(18,115)	(312)	(3,627)	-	(22,054)
New financial assets originated or purchased	18,613	92	-	-	18,705
Termination due to discontinued operations	(429,519)	(4,154)	(15,847)	(353)	(449,873)
Gross carrying amount as at 31 December 2019	328,707	7,518	2,784	-	339,009

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Gross carrying amount as at 1 January 2018	561,349	11,627	30,311	330	603,617
Transfers:					
Transfer from Stage 1 to Stage 2	-	(606)	-	-	(606)
Transfer from Stage 1 to Stage 3	-	-	(722)	-	(722)
Transfer from Stage 2 to Stage 3	-	-	(67)	-	(67)
Transfer from Stage 3 to Stage 2	-	(26)	-	-	(26)
Transfer from Stage 2 to Stage 1	(78)	-	-	-	(78)
Transfer from Stage 3 to Stage 1	19	-	-	-	19
Changes in EAD	(9,831)	(37)	3,065	234	(6,569)
Financial assets derecognised during the period other than write-offs	(184,679)	(231)	(11,311)	(250)	(196,471)
New financial assets originated or purchased	349,636	320	1,399	39	351,394
FX and other movements	(919)	-	(180)	-	(1,099)
Gross carrying amount as at 31 December 2018	715,497	11,047	22,495	353	749,392

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

Notes to the Consolidated Financial Statements
Impairment- Credit risk exposure- Gross carrying amount per asset type, and loss allowance

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
<i>Investment grade</i>	-	-	-	-	-
Balances with the National Bank of Hungary	915	-	-	-	915
<i>Investment grade</i>	915	-	-	-	915
Due from banks	17,566	-	-	-	17,566
<i>Investment grade</i>	17,566	-	-	-	17,566
Securities at fair value through other comprehensive income	43,726	-	-	-	43,726
<i>Investment grade</i>	43,726	-	-	-	43,726
Securities at amortised cost	999	-	-	-	999
Investment grade	999	-	-	-	999
Refinanced mortgage loans	217,205	-	-	-	217,205
<i>Investment grade</i>	217,205	-	-	-	217,205
Retail mortgage loans	49,375	6,650	2,784	-	58,809
<i>Investment grade</i>	46,986	5,755	-	-	52,752
<i>Default grade</i>	419	107	2,784	-	3,310
<i>Non-investment grade</i>	1,959	788	-	-	2,747
Corporate mortgage loans	9	-	-	-	9
<i>Investment grade</i>	9	-	-	-	-
<i>Default grade</i>	-	-	-	-	-
<i>Non-investment grade</i>	-	-	-	-	-
Total gross carrying amount	329,795	6,650	2,784	-	339,229
Loss allowance	25	405	560	-	990
Carrying amount	329,770	6,245	2,224	-	338,239

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Notes to the Consolidated Financial Statements
Impairment- Credit risk exposure- Gross carrying amount per asset type, and loss allowance

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	3,157	-	-	-	3,157
<i>Investment grade</i>	3,157	-	-	-	3,157
Balances with the National Bank of Hungary	2,073	-	-	-	2,073
<i>Investment grade</i>	2,073	-	-	-	2,073
Due from banks	61,679	-	-	-	61,679
<i>Investment grade</i>	61,679	-	-	-	61,679
Securities at fair value through other comprehensive income	192,142	-	-	-	192,142
<i>Investment grade</i>	192,142	-	-	-	192,142
Refinanced mortgage loans	105,296	-	-	-	105,296
<i>Investment grade</i>	105,296	-	-	-	105,296
Retail mortgage loans	169,738	10,646	11,756	292	192,432
<i>Investment grade</i>	680	5,518	-	-	6,198
<i>Default grade</i>	-	-	11,756	292	12,048
<i>Non-investment grade</i>	169,058	5,128	-	-	174,186
Retail other loans	34,836	295	3,465	61	38,657
<i>Investment grade</i>	26,107	239	-	-	26,346
<i>Default grade</i>	-	-	3,465	61	3,526
<i>Non-investment grade</i>	8,729	56	-	-	8,785
Corporate mortgage loans	36,030	106	4,701	-	40,837
<i>Investment grade</i>	36,030	106	-	-	36,136
<i>Default grade</i>	-	-	4,701	-	4,701
Corporate other loans	110,546	-	2,573	-	113,119
<i>Investment grade</i>	25,208	-	-	-	25,208
<i>Default grade</i>	-	-	2,573	-	2,573
<i>Non-investment grade</i>	85,338	-	-	-	85,338
Total gross carrying amount	715,497	11,047	22,495	353	749,392
Loss allowance	1,411	679	10,326	229	12,645
Carrying amount	714,086	10,368	12,169	124	736,747

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

Notes to the Consolidated Financial Statements
Impairment movement table

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2019	1,411	679	10,326	229	12,645
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(24)	116	-	-	92
Transfers from Stage 1 to Stage 3	(31)	-	693	-	662
Transfers from Stage 2 to Stage 1	17	(122)	-	-	(105)
Transfers from Stage 3 to Stage 1	55	-	(1,100)	-	(1,045)
Transfers from Stage 3 to Stage 2	-	12	(38)	-	(26)
Transfers from Stage 2 to Stage 3	-	(63)	137	-	74
New financial assets originated or purchased	608	8	-	-	616
Changes in PDs/LGDs/EADs	1,269	(66)	(199)	(229)	775
FX and other movements	-	-	-	-	-
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(313)	0	(4,595)	-	(4,908)
Termination due to discontinued operations	(2,967)	(159)	(4,664)	-	(7,790)
Impairment loss as at 31 December 2019	25	405	560	-	990

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2018	2,680	318	14,693	109	17,800
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	-	503	-	-	503
Transfers from Stage 1 to Stage 3	-	-	1,561	-	1,561
Transfers from Stage 2 to Stage 1	(122)	-	-	-	(122)
Transfers from Stage 3 to Stage 1	(795)	-	-	-	(795)
Transfers from Stage 3 to Stage 2	-	(99)	-	-	(99)
Transfers from Stage 2 to Stage 3	-	-	34	-	34
New financial assets originated or purchased	365	13	640	28	1,046
Changes in PDs/LGDs/EADs	(420)	(23)	(710)	177	(976)
FX and other movements	(13)	-	748	-	735
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(284)	(33)	(6,640)	(85)	(7,042)
Impairment loss as at 31 December 2018	1,411	679	10,326	229	12,645

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

Notes to the Consolidated Financial Statements
Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Provision as at 1 January 2019	1,154	9	104	1,267
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	-	-	-	-
Transfers from Stage 1 to Stage 3	-	-	3	3
Transfers from Stage 2 to Stage 1	-	(1)	-	(1)
Transfers from Stage 3 to Stage 1	-	-	(1)	(1)
Transfers from Stage 3 to Stage 2	4	-	(38)	(34)
New financial assets originated or purchased	1,042	-	-	1,042
Changes in PDs/LGDs/EADs	(226)	(5)	(31)	(262)
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(47)	-	(29)	(76)
Termination due to discontinued operations	(1,926)	(2)	(7)	(1,935)
Impairment loss as at 31 December 2019	1	1	1	3

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Provision as at 1 January 2018	750	11	91	852
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	-	6	-	6
Transfers from Stage 1 to Stage 3	(2)	-	39	37
Transfers from Stage 2 to Stage 1	(2)	-	-	(2)
Transfers from Stage 3 to Stage 1	(21)	-	-	(21)
Transfers from Stage 3 to Stage 2	-	(6)	-	(6)
New financial assets originated or purchased	790	1	41	832
Changes in PDs/LGDs/EADs	97	(1)	(40)	56
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(458)	(2)	(27)	(487)
Impairment loss as at 31 December 2018	1,154	9	104	1,267

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

Notes to the Consolidated Financial Statements
Exposure to credit risk on loan commitments and financial guarantees

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Loan commitment	470	4	64	-	538
Bank guarantees	-	-	-	-	-
Total exposure	470	4	64	-	538

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Loan commitment	98,967	146	333	-	99,446
Bank guarantees	5,378	-	35	-	5,413
Total exposure	104,345	146	368	-	104,859

Impairment

31 December 2019	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail mortgage loans	1,938	281	1,657
Retail other loans	846	279	567
Total credit-impaired assets	2,784	560	2,224

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Notes to the Consolidated Financial Statements
Lending risk exposure of the Bank in terms of internal risk classification

Class	Historic default rate 31.12.2018 (%)	Uncovered 31.12.2018 HUF million	Total 31.12.2018 HUF million
Class 1	0.00	182,678	182,678
Class 2	0.00	1,094	1,094
Class 3	0.00	8,527	10,335
Class 4	0.27	20,344	109,819
Class 5-7	3.38	105,075	224,394

The table shows the Bank gross outstanding loans portfolio (dues from banks, refinanced mortgage loans and other mortgage and unsecured loans and bonds).

In the calculation of risk capital, in accordance with its internal risk management policy, the Bank classifies its loan portfolio and its weighted off-balance items in different rating categories. Consolidated data based on the International Financial Reporting Standards (IFRS) are used in the classification. Retail customers are rated into seventeen categories (classes). Other partners (mainly credit institutions) are rated into seven categories. The classes are determined based on customer rating policy. The Bank consolidated the two sets of classes in the above table, in this way the historical default rates of the entire portfolio are combined and broken down in terms of rating classes.

The classification of credit assets into risk grades is based on Takarék Group's internal rating system. Internal rating models and risk parameters are developed by internal specialist team. Rating development follows internal methodology, which is controlled continuously by the Internal Audit as well as by the supervisory authorities.

The Bank applies different rating scales in different segments, but applies a standardized framework for external reporting, which is mapping the risk classes to the following categories.

Class 1: In practice, only risk-free exposures, governments fall into this category

Class 2: includes first class, nearly risk-free institutional (bank) exposures, which estimated default rate is close to zero. These institutions have typically high (AA) rating from well-known credit rating institutions.

Class 3: includes institutional (bank) low risk exposures, which are not included in previous classes, and their estimated average PD is very low. They are also financially strong, reputed financial institutions that have a good rating.

Class 4:

In this category are included the best qualified retail and corporate customers which default rate is low. These customers have excellent credit history, and a balanced business management (in case of companies).

In case of institutional exposures those exposures which are not included in previous classes and their estimated default rate are low have to be classified to this category.

Class 5-7:

All exposures which are not included in classes 1-4, have to be classified to this category.

Notes to the Consolidated Financial Statements

36.4.1 Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor or the Group’s initiative, basically based on the fact that the borrower is considered to be unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor’s financial difficulties and significant deterioration of ability to pay.

Furthermore buffer account loans granted within the framework of the FX rate protection scheme are qualified as forborne as loans, as well as ones concerning to the buffer account loan has been opened.

In comparison with the original term and conditions, essentially more favourable conditions are arising for clients by modification of contract.

Modifications of the terms and conditions can be the following:

- rescheduling the payment
- modification of foreign exchange
- forbearing from collaterals
- capitalization of interest

Rating of forborne loans:

1. If the loans are classified as forborne loans the classification category can not be better than it was before.
2. The forborne loans are classified as “to-be- monitored” if the original loan was classified as “problem-free” or “to-be- monitored” and following the forbearance, the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 180 days without break.
3. The forborne loans are possible to be classified as “problem free” after one year of the forbearance if the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 365 days without break.

An analysis of forborne gross loan portfolio by loan types as 31 December 2019 and 2018

Loan type	31 December 2019	31 December 2018
Individual loans	2,830	13,562
<i>Fx rate protection scheme (original loan)</i>	680	3,430
<i>Fx rate protection scheme (buffer account)</i>	29	305
Corporate loans	343	611
Total	3,173	14,173

Notes to the Consolidated Financial Statements

An analysis of impaired forborne loan portfolio by loan types as 31 December 2019 and 2018

Loan type	31 December 2019	31 December 2018
Individual loans	708	13,562
<i>Fx rate protection scheme (original loan)</i>	97	3,430
<i>Fx rate protection scheme (buffer account)</i>	7	305
Corporate loans	343	611
Total	1,051	14,173

An analysis of forborne loan portfolio by loan types and risk classes as 31 December 2019

Loan type	Not past due	1-30 DPD	31-60 DPD	61-90 DPD	91-360 DPD	360+DPD	Total
Individual loans	1,834	331	111	69	173	312	2,830
<i>allowance</i>	11	4	2	3	16	62	98
Corporate loans	342	0	0	0	0	0	342
<i>allowance</i>	39	0	0	0	0	0	39
Total capital of loans	2,176	331	111	69	173	312	3,172
Total allowance	50	4	2	3	16	62	137

* the table shows just the multiple-forborne loans

An analysis of forborne loan portfolio by loan types and risk classes as 31 December 2018

Loan type	Not past due	1-30 DPD	31-60 DPD	61-90 DPD	91-360 DPD	360+DPD	Total
Individual loans	7,280	1,139	384	293	544	3,922	13,562
<i>allowance</i>	145	104	43	49	158	1,970	2,469
Corporate loans	478	-	-	-	-	133	611
<i>allowance</i>	56	-	-	-	-	115	171
Total capital of loans	7,758	1,139	384	293	544	4,055	14,173
Total allowance	201	104	43	49	158	2,085	2,640

* the table shows just the multiple-forborne loans

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Consolidated Financial Statements

An analysis of forborne loan portfolio impaired and not impaired by loan types and risk classes as 31 December 2019

Loan type	Not past due			Past due			Total
	Impaired	Not impaired	Total	Impaired	Not impaired	Total	
Individual loans	199	1,703	1,902	509	419	928	2,830
<i>allowance</i>	8	8	16	89	13	102	118
<i>collateral</i>	-	-	-	-	-	-	-
Corporate loans	343	-	343	-	-	-	343
<i>allowance</i>	39	-	39	-	-	-	39
<i>collateral</i>	-	-	-	-	-	-	-
Total capital of loans	542	1,703	2,245	509	419	928	3,173
Total allowance	48	8	55	89	13	102	157
Total collateral	-	-	-	-	-	-	-

* the table shows just the multiple-forborne loans

An analysis of forborne loan portfolio impaired and not impaired by loan types and risk classes as 31 December 2018

Loan type	Not past due			Past due			Total
	Impaired	Not impaired	Total	Impaired	Not impaired	Total	
Individual loans	7,280	-	7,280	6,282	-	6,282	13,562
<i>allowance</i>	145	-	145	2,324	-	2,324	2,469
<i>collateral</i>	13,352	5	13,357	7,342	-	7,342	20,699
Corporate loans	478	-	478	133	-	133	611
<i>allowance</i>	56	-	56	115	-	115	171
<i>collateral</i>	981	-	981	21	-	21	1,002
Total capital of loans	7,758	-	7,758	6,415	-	6,415	14,173
Total allowance	201	-	201	2,439	-	2,439	2,640
Total collateral	14,333	5	14,338	7,363	-	7,363	21,701

* the table shows just the multiple-forborne loans

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Consolidated Financial Statements
An analysis of forborne loan portfolio by type of forbearance as 31 December 2019 and 31 December 2018

	31 December 2019		31 December 2018	
	capital	allowance	capital	allowance
Retail loans	2,830	98	13,562	2,469
<i>bridge loan</i>	1,310	59	7,995	1,669
<i>Fx rate protection scheme (original loan)</i>	680	12	3,430	467
<i>Fx rate protection scheme (buffer account)</i>	29	1	305	34
<i>Fx housing loan converted to HUF</i>	75	5	307	99
<i>other</i>	737	21	1,525	199
Corporate loans	343	39	611	171
Total	3,173	137	14,173	2,640

Changes in impairment of forborne loan portfolio

	31 December 2019
Impairment as at 1 January	472
Provision for impairment in the period	15
Reverse of impairment for the period	(82)
Derecognition due to sale of assets	(268)
Impairment as at end of period	137

Changes in impairment of forborne loan portfolio

	31 December 2018
Impairment as at 1 January	7,152
Provision for impairment in the period	214
Reverse of impairment for the period	(416)
Derecognition due to sale of assets	(4,310)
Impairment as at end of period	2,640

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Notes to the Consolidated Financial Statements

36.4.2 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

All instances of State 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.

Deposit

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

Other

In addition to the above the Banks also accept joint and several guarantee by third party (where the third party is other than the Hungarian State), assigned claims, lien on claims.

The table below shows the structure of the collaterals in 2019 and 2018:

	31 December 2019	31 December 2018
Mortgage	719,055	837,126
Bail	12	16,392
Guarantee	14,158	7,447
Other collaterals	-	1,938
Total	733,225	862,903

The above detailed collaterals cover fully the amount of the loans and refinanced mortgage loans.

Among the collaterals the value of mortgage represents the collateral value allocated to the mortgage at disbursement (market value less discount factor) in case of Customer loans. In case of refinanced mortgage loans, mortgage is the lower of the collateral value or the receivable. 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.

Notes to the Consolidated Financial Statements
36.5 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.

36.6 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. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as repurchase of mortgage bonds, swap transactions as well as issued bonds maturities and interest rates suited to assets are also involved in order to ensure the harmony between assets and liabilities.

Average portfolio of interest earning assets and interest bearing liabilities of the Group in the period:

	31 December 2019		31 December 2018	
	Average net A/L	Average interest rate %	Average net A/L	Average interest rate %
Interest earning assets				
Dues from banks and Balances with the National Bank of Hungary	1,192	0.04	43,239	1.17
Securities at fair value through profit or loss and at fair value through other comprehensive income	41,520	1.98	32,513	1.53
Refinanced mortgage loans	193,106	1.86	91,842	2.60
Loans and advances to customers at amortised cost and fair value	82,164	5.08	315,331	5.24
Total interest earning assets	317,982	2.7	482,925	4.12
Interest bearing liabilities				
Due to banks	8,264	0.01	34,505	0.14
Deposits	-	-	278,384	0.16
Issued securities and Financial liabilities at fair value through profit or loss, except derivatives	263,873	3.54	189,307	3.57
Total interest bearing liabilities	272,137	3.43	502,196	1.44

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

Notes to the Consolidated Financial Statements
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) +25bp
HUF	(11)	6	(109)	(273)
EUR	1	(1)	14	36
CHF	-	-	-	-

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 increase by HUF 190 million in case of HUF, it would increase by HUF 14 million in case of EUR.

36.7 EXCHANGE RATE RISK MANAGEMENT

The Mortgage Bank is a specialized credit institution, which narrows the scope of business where exchange rate-related risks may arise. Moreover, the business policy of the Banks is to keep exchange rate risk at a low level.

The Banks strive 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) in HUF hundred

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)
CHF	(110)	(110)	(10)	(10)

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Consolidated Financial Statements

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 could decrease with 850 hundred HUF, in case of CHF items it could decrease with 110 hundred HUF. The similar effect for the capital could mean an decrease of 850 hundred HUF in case of EUR items and 110 hundred HUF decrease in case of CHF items. (The sensitivity of the equity means the re-evaluation of the all-currency financial assets and the off-balance sheet positions.)

Consolidated FX financial position of the group in terms of main currencies:

31 December 2019	CHF	EUR	HUF	Total
Assets				
Balances with the National Bank of Hungary	-	-	915	915
Due from Banks	48	5,310	12,208	17,566
Securities at fair value through other comprehensive income	-	-	43,734	43,734
Derivative financial assets	-	(2)	2,853	2,851
Securities at amortised cost	-	-	999	999
Refinanced mortgage loans	-	4,669	212,536	217,205
Loans and advances to customers at amortised cost and	400	-	57,428	57,828
Tangible assets	-	-	157	157
Goodwill and other intangibles	-	-	241	241
Other assets	-	68	1,333	1,401
Total assets	448	10,045	332,404	342,897
Nominal values of derivative	-	-	49,650	49,650
Total assets incl. derivatives	448	10,045	382,054	392,547

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

Notes to the Consolidated Financial Statements

31 December 2019	CHF	EUR	HUF	Total
Liabilities				
Due to banks	457	1,176	1,486	3,119
Derivative financial liabilities	-	-	423	423
Issued securities	-	-	265,929	265,929
Financial liabilities at fair value through profit or loss, except derivatives	-	6,552	-	6,552
Leasing liability	-	70	-	70
Current tax liability	-	-	93	93
Provisions	-	-	509	509
Other liabilities	2	-	1,157	1,159
Total liabilities	459	7,798	269,597	277,854

31 December 2019	CHF	EUR	HUF	Total
Shareholders' equity	-	-	65,043	65,043
Total liabilities and shareholders' equity	459	7,798	334,640	342,897
Nominal values of derivative liabilities	-	-	4,799	4,799
Total liabilities incl. derivatives	459	7,798	339,439	347,696
Position	11	(2,247)	(42,615)	(44,851)

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

Notes to the Consolidated Financial Statements

31 December 2018	CHF	EUR	HUF	Total
Assets				
Cash on hand	47	405	2,705	3,157
Balances with the National Bank of Hungary	-	-	2,073	2,073
Due from Banks	163	15,049	46,452	61,664
Securities at fair value through other comprehensive income	-	11,693	180,449	192,142
Derivative financial assets	-	-	3,962	3,962
Refinanced mortgage loans	-	-	105,296	105,296
Loans and advances to customers at amortised cost and fair value	1,381	43,192	328,021	372,594
Investment property	-	-	-	-
Tangible assets	-	-	2,171	2,171
Goodwill and other intangibles	-	-	388	388
Deferred tax asset	-	-	679	679
Other assets	-	575	9,815	10,390
Total assets	1,591	70,914	682,011	754,516
Nominal values of derivative assets	-	949	239	1,188
Total assets incl. derivatives	1,591	71,863	682,250	755,704

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

Notes to the Consolidated Financial Statements

31 December 2018	CHF	EUR	HUF	Total
Liabilities				
Due to banks	1,283	5,069	150,307	156,659
Deposits	328	53,834	250,171	304,333
Derivative financial liabilities	-	-	2,371	2,371
Issued securities	-	2,491	211,898	214,389
Financial liabilities at fair value through profit or loss, except	-	6,693	-	6,693
Leasing liability	-	-	-	-
Current tax liability	-	-	-	-
Deferred tax liability	-	-	-	-
Provisions	-	-	3,988	3,988
Other liabilities	-	1,208	9,639	10,847
Total liabilities	1,611	69,295	628,374	699,280

31 December 2018	CHF	EUR	HUF	Total
Shareholders' equity	-	-	55,236	55,236
Total liabilities and shareholders' equity	1,611	69,295	683,610	754,516
Nominal values of derivative liabilities	-	125	1,044	1,169
Total liabilities incl. derivatives	1,611	69,420	684,654	755,685
Position	20	(2,443)	2,404	(19)

36.8 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 applies 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.

Off-balance sheet liabilities are presented at their latest date to be drawn (contractual maturity) in the table below. They would be presented in the first category if their earliest date to be drawn were to be taken.

Notes to the Consolidated Financial Statements
Contractual maturities of undiscounted cash flows of financial liabilities as of 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	-	3,119	-	-	-	-	3,119
Deposits	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	423	-	-	-	423
Issued securities	-	5,219	30,069	196,436	34,205	-	265,929
Financial liabilities at fair value through profit or loss, except derivatives	-	591	-	5,961	-	-	6,552
Off balance sheet commitments	180	110	-	4	64	18,026	18,204
Total banking liabilities	180	9,033	30,102	196,489	34,269	18,026	288,099

	On demand	Within 3 months	3 - 12 months	1 – 5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	24,961	832	5,946	1,641	-	33,380
Liabilities from derivatives	-	(24,503)	(442)	(4,973)	(1,503)	-	(31,421)
Net value of derivatives	-	458	390	973	138	-	1,959

In the table, the undiscounted interest cash flows includes not only the accrued interest but also the interest payments in the given period.

Notes to the Consolidated Financial Statements
Contractual maturities of undiscounted cash flows of financial liabilities as of 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	4,029	135,106	331	11,452	5,741	-	156,659
Deposits	198,505	84,230	20,615	983	-	-	304,333
Derivative financial liabilities	-	115	28	664	1,564	-	2,371
Issued securities	-	637	26,707	149,087	60,156	-	236,587
Financial liabilities at fair value through profit or loss, except derivatives	-	259	-	6,434	-	-	6,693
Off balance sheet commitments	3,169	3,667	38,306	59,393	271	53	104,859
Total banking liabilities	205,703	224,014	85,987	228,013	67,732	53	811,502

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	418	1,399	6,101	3,120	-	11,038
Liabilities from derivatives	-	2,457	1,349	4,490	1,262	-	9,558
Net value of derivatives	-	(2,039)	50	1,611	1,858	-	1,480

In the table, the undiscounted interest cash flows includes not only the accrued interest but also the interest payments in the given period.

Notes to the Consolidated Financial Statements

The liability structure is managed by the Bank in the following ways:

- in accordance with the possibilities (demand) of the Hungarian mortgage bond market the Bank is aiming to maximize the maturity of its issued mortgage bonds;
- concentration of the maturity of the mortgage bonds is restricted by limits set in the Bank's internal regulations;
- the Bank is an active player of the mortgage bond markets (repurchasing bonds issued by the Bank).

The table above shows an age analysis of the Bank's liabilities based on the remaining maturity calculated from the balance sheet date. The mortgage bonds and bonds issued by the Bank are presented at actual due principal amounts and increased by the interest payments expected to be paid disclosed in the related information memoranda and programs and are not affected by exchange rate gains and losses or by any valuation difference arising on derivatives. In practice, the maturity of liabilities may depart from the contracted terms.

Maturity analysis of assets and liabilities as of 31 December 2019

	Less than 12 months	Over 12 months
Assets		
Cash on hand	-	-
Balances with the National Bank of Hungary	915	-
Due from banks	17,566	-
Securities at fair value through other comprehensive income	-	43,734
Derivative financial assets	2,851	-
Securities at amortised cost	-	999
Refinanced mortgage loans	16,463	200,742
Loans and advances to customers at amortised cost and fair value	11,590	46,238
Tangible assets	-	157
Intangible assets	-	241
Other assets	1,152	250
Total assets	50,537	292,360

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

Notes to the Consolidated Financial Statements

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	3,119	-
Derivative financial liabilities	423	-
Issued securities	35,288	230,641
Financial liabilities at fair value through profit or loss, except derivatives	591	5,961
Lease liability	21	49
Current tax liability	-	93
Provisions	9	500
Other liabilities	568	591
Total liabilities	40,019	237,835

Maturity analysis of assets and liabilities as of 31 December 2018

	Less than 12 months	Over 12 months
Assets		
Cash on hand	3,157	-
Balances with the National Bank of Hungary	2,073	-
Due from banks	6,546	55,118
Securities at fair value through profit or loss	-	-
Securities at fair value through other comprehensive income	38,546	153,596
Derivative financial assets	121	3,841
Refinanced mortgage loans	9,191	96,105
Loans and advances to customers	39,555	333,039
Tangible assets	-	2,171
Goodwill and other intangible assets	-	388
Deferred tax assets	-	679
Other assets	10,390	-
Total assets	109,579	644,937

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

Notes to the Consolidated Financial Statements

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	139,466	17,193
Deposits from customers	303,350	983
Derivative financial liabilities	143	2,228
Issued securities	27,344	187,045
Financial liabilities at fair value through profit or loss, except derivatives	259	6,434
Provisions	3,988	-
Other liabilities	10,847	-
Total liabilities	485,397	213,883

The members of Integration Organisation of Cooperative Credit Institution (SZHISZ) should – with regard to the several responsibility system of the Integration – examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured for the members of SZHISZ by the relevant statutory and resolution of the National Bank of Hungary. The Takarék Mortgage Bank Ltd is member of the SZHISZ, as a result above exemption also applies to them, according to this the individual liquidity ratios (LCR and NSFR) are not published in the separate final statements.

According to this in the next table includes the liquidity ratio of the whole members of Integration Organisation of Cooperative Credit Institution.:

	31 December 2019	31 December 2018
LCR (liquidity coverage ratio)	134.05%	192.11%
NSFR (net stable funding ratio)	136.79%	111.32%

36.9 MANAGEMENT OF OPERATIONAL RISK

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's management considers feedback to be particularly important in terms of operations-related risk management, as this is the tool to check the effectiveness of measures taken to eliminate risks.

Notes to the Consolidated Financial Statements

36.10 TREATMENT OF RISK CONCENTRATION

The Banks are 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). Taking risk in corporate segment can do in compliance with the sectoral limits.

37 CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

The calculation of regulatory capital based on the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 the cash flow security reserve should be ignored, thus ensuring the soundness of the comparison with previous periods.

The Group applied (a) the IRB (Internal Rating Based) method for credit risk from 1 July 2008 and (b) the AMA (Advanced Measurement Method) for operational risk from 31 December 2011 regarding the calculation of capital requirements. The National Bank of Hungary at the application of MTB Magyar Takarékszövetkezeti Bank Zrt. permitted to Takarék Mortgage Bank and Takarék Commercial Bank to use the same approaches applied by the members of Integration, namely the standard method for credit risk and BIA (Basic Indicator Approach) for operational risk from 30 June 2018.

According to the resolution no. H-EN-I-36./2017 (on 1 January 2017) the National Bank of Hungary – with the acceptance of application provided by SZHISZ, MTB Magyar Takarékszövetkezeti Bank Zrt., and Takarék Mortgage Bank - authorized Takarék to apply individual exemption and terminated the obligation for compliance with sub-consolidated level requirements.

The members of Integration Organisation of Cooperative Credit Institution (SZHISZ) should – with regard to the several responsibility system of the Integration – examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured for the members of SZHISZ by the relevant statutory and resolution of the National Bank of Hungary. The Takarék Mortgage Bank Ltd and the Takarék Commercial Bank Ltd are members of the SZHISZ, as a result above exemption also applies to them.

According to this in the next table the regulatory capital of the members of Integration Organisation of Cooperative Credit Institution includes the following elements: share capital – repurchased treasury shares + share premium + general reserve + share option reserve + retained earnings – intangible assets.

	31 December 2019	31 December 2018
Own Funds	251,451	233,499
TIER 1 Capital	251,451	233,499
Common Equity TIER 1 Capital	251,451	233,499

	31 December 2019	31 December 2018
ROAE (return on average equity %)	1.7	6.3

38 RELATED PARTY TRANSACTIONS

For the purpose of the financial statements, Group 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

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

Notes to the Consolidated Financial Statements

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% (from 14.10.2016. Fókusz Takarékszövetkezet, and from 09.12.2016. MTB Magyar Takarékszövetkezeti Bank Zrt. 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.

The satellite financial entities of the Takarék Group, including the fund management, the leasing and factoring services and the centralized debt collection were taken over in December 2017 by the MTB Magyar Takarékszövetkezeti Bank Zrt., see notes 17.

The list of the related parties, -including the subsidiaries and joint ventures (joint control with Hungarian Post Ltd.) and associates of the MTB Magyar Takarékszövetkezeti Bank Zrt. as at 31 December 2019 is the following:

Companies included in the consolidation*	Main shareholder***	Core business
Bóly és Vidéke Takarékszövetkezet	MTB Magyar Takarékszövetkezeti Bank Zrt. 0%	Savings Cooperative
Takarék Real Estate Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Real estate valuation services, real estate agency and sales
Takarék INVEST Befektetési és Ingatlankezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Own property management, leasing, and operating , facility management
Diófa Alapkezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 88.29%	Fund and property management
Takarék Lízing Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 100%	Lending and leasing
Central European Credit d.d. (Croatia)	Takarék Lízing Ltd. 100%	Lending
Diófa Ingatlankezelő Ltd.	Diófa Alapkezelő Ltd. Ltd. 100%	Real estate management
Diófa TM1 Ingatlan Befektetési Alap	Takarékbank 24 %, Takarék Zártkörű Befektetési Alap 76%	Real estate management
Díjbeszedő Faktorház Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 51%	Purchasing, handling and collection receivables of retail customers
Díjbeszedő Informatikai Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 50%, Díjbeszedő Holding Ltd. 50%	Providing IT services primarily to the members of Díjbeszedő Group
Takarék Kockázati Tőkealap	MTB Magyar Takarékszövetkezeti Bank Zrt. 77%	Hedge Fund

Companies included in the consolidation*	Main shareholder***	Core business
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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

Notes to the Consolidated Financial Statements

DÍJNET Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 51%	Providing electronic bill payment services
Takarékbank Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 73%	Credit institution
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Investment Fund
Magyar Posta Befektetési Szolgáltató Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 50%, Magyar Posta Ltd. 50%	Selling investment products
Takarék Zártkörű Befektetési Alap	MTB Magyar Takarékszövetkezeti Bank Zrt. 92%, Takarék INVEST 8%	Investment Fund
Takarék Faktorház Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Providing full factoring services
Takarékszövetkezeti Informatikai Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 52.38% SZHISZ** 47.62%	The leading IT service provider of the integration of Savings Cooperatives – as outsourced activity – primarily provides IT system operation and system integration services in the field of banking IT
Tak-Invest Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	IT service provider
Takarék Központi Követeléskezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Debt collection, debt recovery, intermediation of financial services
TKK Ingatlan Ltd.	Takarék Központi Követeléskezelő Ltd. 100%	Sale of properties
MA-TAK-EL Magyar Takarékek Ellátó Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 59.09% and Magyar Takarékek Befektetési és Vagyongazdálkodási Ltd. 40.91%	Providing bank security, facility management and other operating services excluding IT services
DBH Investment Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 99,5%	Fund and property management
TIFOR Takarékek Ingatlanforgalmazó Zrt.	Takarékbank 100 %	Sale of properties
TIHASZ Takarékek Ingatlanhasznosító Zrt.	Takarékbank 100 %	Renting and operating of real estate
TKK Csoport Ingatlankezelő Ltd.	Takarék Központi Követeléskezelő Ltd. 100 %	Sale of properties
Takarékinfo Központi Adatfeldolgozó Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 13,91 %, Takarék INVEST Befektetési és Ingatlankezelő Kft. 13,91 %, SZHISZ 20,00%	data processing, web-hosting service

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

Notes to the Consolidated Financial Statements

Companies included in the consolidation*	Main shareholder***	Core business
MPT Security Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 40,00 %, Takarék INVEST Befektetési és Ingatlankezelő Kft. 10,00 %	security service
TKK Takarék Követelésbehajtó Zrt.	Takarék Központi Követeléskezelő Ltd. 100 %	Collection receivables

* From the point of view of MTB Magyar Takarékszövetkezeti Bank Zrt., as parent company of Takarék Group (including Takarék Mortgage Bank and Takarékbank).

** "SZHISZ" = Integration of Savings Cooperatives

*** % in the column = the ownership of the main shareholder

	31 December 2019	31 December 2018
Loans to executives, members of the Board of Directors and Supervisory Board	-	-
Gross remuneration		74
Total remuneration	69	74

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transaction in 2019 and 2018 between the Group and other related parties are disclosed on the next page.

Notes to the Consolidated Financial Statements
Details of transactions as of 31 December 2019

	Parent	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	1,510	-
Interest expense	(615)	(479)	-
Net interest income	(380)	1,031	-
Fee and commission income	1,484	239	-
Fee and commission expense	-	(246)	-
Net fee and commission income	1,484	(7)	-
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	(1,061)	(69)

Details of transactions as of 31 December 2018

	Parent	Associates and joint ventures	Key management
Due from banks	60,066	-	-
Loans and advances to customers	-	17,789	2
Other assets	77	14	-
Total assets	60,143	17,803	2
Due to banks	134,068	4,000	-
Deposits from customers	-	11,496	-
Other liabilities	-	56	-
Total liabilities	134,068	15,552	-
Interest income	922	275	-
Interest expense	(1,148)	(12)	-
Net interest income	(226)	263	-
Fee and commission income	4	78	-
Fee and commission expense	(218)	(582)	-
Net fee and commission income	(214)	(504)	0
Other operating income	1,124	54	-
Other operating expense	-	-	-
Operating income	684	(186)	0
Operating expense	(1)	(439)	(48)
Profit/loss on transactions with related parties	(1,105)	(5,892)	(74)

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

Notes to the Consolidated Financial Statements

39 NET GAINS

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

2019	Derivative financial assets and liabilities	Securities at fair value through other comprehensive income	Loans and advances to customers at amortised cost and at fair value	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	1,756	549	6,594	-	-	-	8,899
Interest expense	(803)	-	-	(271)	(6,539)	-	(7,613)
Net interest income	953	549	6,594	(271)	(6,539)	-	1,286
Fee and commission income	1,407	-	406	-	-	-	1,813
Fee and commission expense	(78)	-	(311)	-	-	-	(389)
Net fee and commission income	1,329	-	95	-	-	-	1,424
Change in fair value of derivatives	58	-	-	-	-	-	58
Gains from securities	-	588	-	134	11	-	733
Other operating income	-	-	-	-	-	841	841
Other operating expense	-	-	-	-	-	(902)	(902)
Operating income	2,340	1,137	6,689	(137)	(6,528)	(61)	3,440

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

Notes to the Consolidated Financial Statements

2018	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans and advances to customers at amortised cost and at fair value	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	1,139	759	7,795	-	-	-	9,693
Interest expense	-	-	-	(1,438)	(6,462)	-	(7,900)
Net interest income	1,139	759	7,795	(1,438)	(6,462)	-	1,793
Fee and commission income	-	-	383	-	-	-	383
Fee and commission expense	(181)	-	(301)	-	-	(20)	(502)
Net fee and commission income	(181)	-	82	-	-	-	(119)
Change in fair value of derivatives	2,045	-	-	-	-	-	2,045
Gains from securities	-	(153)	-	1,630	89	-	1,566
Other operating income	-	-	-	-	-	1,821	1,821
Other operating expense	-	-	-	-	-	(692)	(692)
Operating income	3,003	606	7,877	192	(6,373)	1,109	6,414

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

Notes to the Consolidated Financial Statements
40 SEGMENT REPORTING BY BUSINESS SEGMENTS

The Group distinguishes business segments according to the organizational structure of the company. The profitability of the company is presented based on this structure. The segments have separable and assignable income, expense, assets and liabilities.

The reportable segments of the Group on the base of IFRS 8 are the following:

- **Retail:** the Bank provides a wide range of services to its retail customers (retail bank accounts, deposits, savings, loans) through the branch network and with the collaboration of the Hungarian Post. Retail bank accounts, deposits, savings, loans of the Takarék Mortgage Bank continue to be included as part of the retail segment.
- **Corporate:** the Bank is trying to satisfy not only the retail but the corporate customers' financial needs providing corporate accounts, deposits, loans in different type, size with different collaterals, guarantees. (The corporate segment is not significant after the selling of share of Takarek Kereskedelmi Bank.)
- **Treasury:** the segment's responsibilities include liquidity management, asset and liability management, and security issue on behalf of the Takarék Mortgage Bank.
- **Refinancing:** refinancing mortgage loans to Takarék Commercial Bank and other partner institutions
- **Other:** the Bank's core business is supported by subsidiary, which profitability's is reported in this category.

Segment report, 31 December 2019	Retail	Treasury	Banks	Refinancing	Other	Total
Net interest income	4,013	1,327	(33)	(4,043)	22	1,268
Other net income	1,434	801	-	(9)	-	2,226
Provision for impairment on loan losses	155	-	-	-	-	155
Direct expense	(1,896)	(60)	-	(702)	-	(2,658)
Operating result	3,706	2,068	(33)	(4,754)	22	1,008
Profit before tax	3,706	2,068	(33)	(4,754)	22	1,008
Segment assets	57,608	46,585	18,481	217,205	3,018	342,897
Segment liabilities and equity	-	423	3,119	265,929	73,426	342,897

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

Notes to the Consolidated Financial Statements

Segment report, 31 December 2018	Retail	Corporate	Treasury	Refinancing	Other	Total
Net interest income	10,487	2,768	519	917	0	14,691
Other net income	3,060	1,971	4,944	(70)	1	9,906
Provision for impairment on loan losses	709	205	1	-	0	915
Direct expense	(15,715)	(1,902)	(361)	(627)	0	(18,605)
Operating result	(1,459)	3,042	5,103	220	1	6,907
Profit before tax	(1,459)	3,042	5,103	220	1	6,907
Segment assets	201,263	171,459	259,857	105,296	16,769	754,644
Segment liabilities and equity	128,917	175,416	161,091	214,389	74,831	754,644

41 IMPACTS OF IMPLEMENTATION OF IFRS 16
General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019 and superseded the current lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessees, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. In contrast to a lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The date of initial application of IFRS 16 for the Bank was 1 January 2019.

The Bank has chosen the modified retrospective application (cumulative catch-up approach) of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Bank restated its comparative figures but recognized the cumulative effect of adopting IFRS 16 as an adjustment to equity (retained earnings) at the date of the initial application.

Impact of the new definition of a lease

IFRS 16 provides a new definition of a lease. The essential element differentiating the definition of a lease under IAS 17 and under IFRS 16 is the concept of control. 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. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

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

Notes to the Consolidated Financial Statements

The Bank applied the new definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified before and on or after 1 January 2019.

In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 changed significantly the scope of contracts that meet the definition of a lease for the Bank.

Impact on lessee accounting

The new 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 except for short-term leases and low asset value leases which are subject to exemptions.

On initial application of IFRS 16, for leases previously classified as operating leases (except as noted below), the Bank recognised right-of-use assets and lease liabilities in the consolidated statement of financial position. The paragraphs below explain the measurement methods that was applied to those leases.

On initial application of IFRS 16, for each lease separately, the lease liability was initially measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Additionally, the Bank decided to use following practical expedients in respect of the measurement of these lease liabilities:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

On initial application of IFRS 16, the right-of-use asset, was initially measured 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 initial application.

Additionally, when initially measuring the right-of-use assets, the Bank

- Relied on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review of the right-of-use asset on a date of initial application. As a consequence, the right-of-use asset recognised at the date of initial application will be adjusted by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Subsequently, the Bank :

- (a) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- (b) Not separated the total amount of cash paid into a principal portion and interest in the cash flow statement/consolidated cash flow statement.

No changes in accounting had been made in case of operating leases which as at 1 January 2019 will have the remaining lease period of 12 months or less, and leases of low-value assets (such as personal

Notes to the Consolidated Financial Statements

computers and office furniture. In those cases, the Bank opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Bank 21 has non-cancellable operating lease commitments that are related to leases other than short-term leases and leases of low-value assets. Summary of the related contracts:

Leased asset category	Number of contracts
Properties	20
- with indefinite term	11
- with definite term	1
Company car	1
- with indefinite term	0
- with definite term	1
Total	21

The Bank recognised a right-of-use asset of HUF 1,263 million and a corresponding lease liability of HUF 1,278 million in respect of all these leases. The estimate impact on profit or loss in 2019 is to decrease rental fees by HUF 736 million, to increase depreciation by HUF 723 million, and to increase interest expense by HUF 12 million.

The Bank has no provision for onerous lease contracts or lease liability incentives as at 31 December 2018 that should be derecognised and considered in measurement of the right-of-use assets and lease liabilities.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by HUF 735 million and to decrease net cash used in financing activities by the same amount.

The summary of the financial impact on adopting IFRS 16 is presented in the table below (related only to leases entered or modified before 1 January 2019):

in million HUF	01 January 2019	31 December 2019
Right-of-use asset	1 264	56
Lease liability	1 278	70
Provision for onerous contracts	-	-
Other items	-	-
Cumulative impact recognized as an adjustment to the equity at the date of initial application	(14)	
Expected impact on statement of comprehensive income from continuing operation:		12
Expected impact on statement of comprehensive income from discontinued operation:	-	-

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

Notes to the Consolidated Financial Statements

- Increase of depreciation from continuing operation	-	(54)
- Increase of depreciation from discontinued operation		(561)
- Increase of interest expense from continuing operation	-	(1)
- Increase of interest expense from discontinued operation		(10)
- Decrease of rental fee from continuing operation	-	42
- Decrease of rental fee from continuing operation		571
Expected impact on statement of cash flows:	-	0
- Increase of net cash-flow from operating activities	-	613
- Decrease of net cash-flow from financing activities	-	(613)

Estimated impact on financial ratios, bank covenants and other arrangements

Adopting IFRS 16 had no material impact on financial ratios, bank covenants and other arrangements.

42 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

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 activity. The reason behind the decision is that Takarek Mortgage Bank 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 Company 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

Notes to the Consolidated Financial Statements

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 36.4.

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.

Proposal for the Agenda Item No.1.3.



Report of the Supervisory Board on the separate and consolidated financial statement and business report of the Company on the year 2019 in accordance with International Financial Reporting Standards („IFRS”)

The Supervisory Board examined the TakaréK Mortgage Bank Co. Plc's (Company) **Annual Report for 2019 and the Financial Statements for 2019 business year** consisting of the Balance Sheet, the Profit and Loss Statement and the Notes.

Based on the Auditor's Report, the Supervisory Board has established that **the Company had kept its books and accounts, and prepared the financial statements in accordance with the relevant statutory provisions.**

The Supervisory Board proposes for the General Meeting to

approve

the Company's separate Annual Report for the year ending on 31 December 2019 prepared according to the International Financial Standards (IFRS)

with a balance sheet total of HUF 342,897 million.

The Supervisory Board proposes to the General Meeting to place the **balance sheet profit for 2019 amounting to HUF 2,140 million** in capital reserve when resolving on the appropriation of profit and establish **HUF 214 million** in general reserve in accordance with the relevant law.

Furthermore, the Supervisory Board proposes the approval of the Business Report for 2019.

The Supervisory Board proposes for the General Meeting to

approve

the Company's Consolidated Annual Report for 2019 prepared according to the International Financial Reporting Standards (IFRS)

with a balance sheet total of HUF 342,897 million and profit before tax of HUF 1,008 million (profit).

Proposal for the Agenda Item No. 1.4.



**Report of the Audit Committee on the separate and consolidated
financial statement and business report of the Company
on the year 2019 in accordance with International Financial
Reporting Standards („IFRS”)**

The Audit Committee examined the TakaréK Mortgage Bank Co. Plc's (Company) **Annual Report for 2019 and the Financial Statements for 2019 business year** consisting of the Balance Sheet, the Profit and Loss Statement and the Notes.

Based on the Auditor's Report, the Audit Committee has established that **the Company had kept its books and accounts, and prepared the financial statements in accordance with the relevant statutory provisions.**

The Supervisory Board proposes for the General Meeting to

approve

the Company's separate Annual Report for the year ending on 31 December 2019 prepared according to the International Financial Standards (IFRS)

with a balance sheet total of HUF 342,897 million.

The Supervisory Board proposes to the General Meeting to place the **balance sheet profit for 2019 amounting to HUF 2,140 million** in capital reserve when resolving on the appropriation of profit and establish **HUF 214 million** in general reserve in accordance with the relevant law.

Furthermore, the Supervisory Board proposes the approval of the Business Report for 2019.

The Supervisory Board proposes for the General Meeting to

approve

the Company's Consolidated Annual Report for 2019 prepared according to the International Financial Reporting Standards (IFRS)

with a balance sheet total of HUF 342,897 million and profit before tax of HUF 1,008 million (profit).

The Audit Committee proposes for the Supervisory Board to put its Report to the General Meeting.



PROPOSAL
FOR AGENDA ITEM NO. 2.



DECISION FOR SENIOR OFFICERS CONCERNING THE GRANTING OF INDEMNIFICATION
ESTABLISHING THE COMPLIANCE OF THEIR MANAGEMENT ACTIVITIES IN THE
BUSINESS YEAR OF 2019

Proposal:

Pursuant to Paragraph (1) of Section 3:117 of Act V of 2013 on the Civil Code (the “Civil Code”), the request of the senior officer may be granted by the General Meeting by issuing, simultaneously with the acceptance of the report, indemnification establishing the compliance of management activities in the previous business year.

The Board of Directors of Takarék Mortgage Bank Co. Plc requests that the General Meeting issues the indemnification with regard to the following reasons.

In the course of the previous year, the Board of Directors has monitored, discussed the issues within its competence, has held regular meetings to make the decisions necessary for such issues, and has made out-of-meeting decisions. At the ordinary General Meeting of 2019, it has reported on the activities and achievements of Takarék Mortgage Bank Co. Plc in the year 2018.

With respect to Section V of Act CXX of 2001 on the Capital Market and relevant legislation, the Board of Directors has always kept the shareholders informed of the business activities of Takarék Mortgage Bank Co. Plc

The Board of Directors, with regard to and in accordance with the provisions of the law on credit institutions and financial undertakings, and the law on accounting, have created and prepared for submission to the General Meeting the annual report and consolidated annual report of Takarék Mortgage Bank Co. Plc

The annual profit of Takarék Mortgage Bank Co. Plc was 2.140 billion forints in the year 2019 with regard to individual IFRS, while the Bank’s individual total comprehensive income was shown to be 2.858 billion forints. The development of the profit structure was significantly influenced by the substantial change in the Mortgage Bank’s business strategy started in 2018 and completed in 2019, as result of which the Mortgage Bank has only provided refinancing to partner banks in the given period. In addition to the above mention factors, in 2019, individual profit items, including financial assets not measured at fair value through profit or loss and profit from derecognition of liabilities, have made lesser contributions to the Mortgage Bank’s annual profit in accordance with the smoother mortgage bank operation model.

Based on International Financial Reporting Standards (“IFRS”), the balance sheet total of Takarék Mortgage Bank Co. Plc was 342,897 million forints by 31 December, 2019, at the individual and consolidated level. The individual balance sheet total was 2.7% higher than in 2018. The one year growth of the asset side was caused primarily by the growth of financial assets at amortised costs, including an increase in loan stocks (refinanced loans). Compared to the previous year, the loan stock has increased by 31.5 billion forints, resulting in a loan stock of 275.8 billion forints by the end of the period. The yearly change of the liability side was defined by an increase in issued debt securities (resulting in an increase in funds equal to 18.1 billion forints), and a 2.9 billion forint growth in equity capital.

In the understanding of the Board of Directors, it has performed its duties preserving the value of shares and emphasizing the prime importance of the interests of Takarék Mortgage Bank Co. Plc, and thus requests that the General Meeting to be held on 28 April, 2020 and concerning the 2019 report of Takarék Mortgage Bank Co. Plc evaluates the activities

performed by senior officers in the business year of 2019, and, based on said evaluation, issue an indemnification establishing the compliance of the senior officers' management activities in the business year of 2019.

If the indemnification is granted, Takarék Mortgage Bank Co. Plc may only make a claim for compensation against members of the Board of Directors for the violation of managerial obligations if the facts or data on which said indemnification is based prove to be incorrect or incomplete.

The facts and data on which the issuance of the indemnification may be based are provided in the following documents:

- semi-annual reports;
- annual reports;
- interim management statements;
- special reports;
- statements concerning 2019, relevant audit reports, Supervisory Board's report;
- Responsible Corporate Governance Report.

The Supervisory Board concurs with the proposal of the Board of Directors.

Proposed resolution:

Based on the request of the Company's Board of Directors, the General Meeting has evaluated the activities of the senior officers in the business year of 2019, and, based on said evaluation, has issued an indemnification establishing the compliance of their management activities in the business year of 2019.



PROPOSAL
FOR AGENDA ITEM 3



ELECTION AND DETERMINATION OF
THE REMUNERATION OF THE
COMPANY'S AUDITOR

Proposal:

Deloitte Könyvvizsgáló és Tanácsadó Kft. (hereinafter referred to as: Deloitte) has performed audit tasks for Takarék Mortgage Bank Co. Plc. in the previous years.

During the review of the previous annual reports, Deloitte's professional cooperation has greatly contributed to the preparation of accounting and financial reports. The Deloitte Group also contributed to the review of the reports of the entire cooperative credit sector as a central auditor.

In the course of the aforementioned duties, Deloitte provided the appropriate expert team for the audit and other review work needed for the integration of the cooperative credit institutions.

The statutory compliance review required for the selection of the audit company and the auditor in charge has been performed, the result of which is presented below.

- Compliance with the condition laid down in Section 67/A of Act LXXV of 2007 on the integration of cooperative credit institutions and amendments to certain economic laws: ensured, the commission for auditing the annual reports does not exceed 8 consecutive business years.
- Compliance with the condition laid down in Article 17 of Regulation (EU) No. 537/2014: ensured, the commission did not exceed maximum 10 years set out for the auditing company and maximum 7 years for the auditor in charge.
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 260 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (additional report to the Audit Committee)
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 17/K, paragraph (6) of Act CXXXV of 2013 on the integration of cooperative credit institutions and amendments to certain economic laws.

Therefore, it can be stated that there are no exclusion conditions against the election.

We recommend Deloitte Könyvvizsgáló és Tanácsadó Kft. be elected as the auditor of Takarék Mortgage Bank Co. Plc in 2020 as well.

In the event Deloitte is elected, the registered auditors in charge will be Molnár Gábor, if they are prevented from performing their tasks: Mádi-Szabó Zoltán, and we recommend that the General Meeting of Takarék Mortgage Bank Co. Plc accepts this.

The recommended auditing fee of Deloitte in 2020 is **HUF 14 million + VAT (HUF 17,78 million)**.

**DRAFT RESOLUTION
for agenda item 3**

The General Meeting of Takarék Mortgage Bank Co. Plc ('Company') supports that the audit tasks of Takarék Mortgage Bank Co. Plc. be performed by Deloitte Könyvvizsgáló és Tanácsadó Kft. for the 2020 business year for the fee of HUF 14 million + VAT (HUF 17,78 million).

The General Meeting of TakaréK Mortgage Bank Co. Plc supports that the auditor in charge be. Molnár Gábor, if he is prevented from performing his tasks: Mádi-Szabó Zoltán.



PROPOSAL

to the Item No. 4 of the Agenda

Acceptance of the report on Corporate Governance

PROPOSAL

Acceptance of the report on Corporate Governance

Companies being present on the stock exchange are obliged to prepare and publish the Corporate Governance Report based upon the Recommendations on Corporate Governance defined by the Budapest Stock Exchange ("BSE"), which, according to Article 3:289 of the Act V of 2013 on Civil Code ("Civil Code"), is to be approved by the general meeting.

According to the guide of BSE, the recommendations can be considered as a supplementation of the Hungarian legislation (basically of the Civil Code), primarily for public companies being present on the stock exchange and having their registered seat in Hungary. The recommendations suggest proposals for the recommended practice. It is recommended to comply with the proposals as defined in the recommendations; however it is not compulsory for the listed companies.

Companies being present on the stock exchange are obliged to report on their practice on corporate governance in two ways. In the first part of the report the practice on corporate governance applied in the respective business year is to be presented in a precise, comprehensive and unambiguous way, expressing the corporate governance policy as well as particular circumstances, if any. In the second part of the report the compliance with the concrete recommendations is to be shown in accordance with the principle of "*comply or explain*", furthermore, information are to be given whether the concrete proposals defined in the recommendations are applied.

Companies being present on the stock exchange are to prepare and publish their Report on Corporate Governance within 120 days from the end of the respective business year (in case of companies defining business year identical with the calendar year the deadline is 29 April).

The present proposal gives proposal for approving the Corporate Governance Report of Takarékszövetkezeti Hitelintézmények Zrt. for year 2019, as contained in the attached annex.

PROPOSED RESOLUTION

to Item No. 4 of the Agenda

The General Meeting approved the Corporate Governance Report of the Company for year 2019 as set forth in the written proposal related to this item of the agenda.



A
Responsible Corporate Governance Report of TakaréK Mortgage Bank CO. PLC

for

2019

28 April 2020

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1. Presentation of the operation of the Board of Directors, and the division of responsibilities and duties between the Board of Directors and the management

The Board of Directors is the legal representative and managing body of the Company, and it represents the Company against third parties, as well as before courts and other authorities, manages and controls the business activity and finances of the Company, and provides the conditions of successful operation.

The organisation and operation of the Board of Directors is governed by the Articles of Association and the Rules of Procedure of the Board of Directors. The Board of Directors has the authority to establish the Rules of Procedure of the Board of Directors. Both the Articles of Association and the Rules of Procedure of the Board of Directors are available at the official website of the Company (www.takarek.hu).

The Board of Directors consists of at minimum five and at maximum eleven members. In 2019, the Board of Directors consisted of five members until 31.10.2019, and of six members afterwards. The members of the Board of Directors are elected by the general assembly from among the shareholders or other persons. In accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings (Credit Institutions Act) and the Articles of Association, in 2019, out of the members of the Board of Directors, the CEO of the Company and the Deputy CEO(s) had continuous employment relationship with the Company (internal Board members).

The members of the Board of Directors shall be liable towards the Company for any damage caused thereto by breaching the provisions of the law, the Articles of Association, the resolutions of the general assembly or their obligations in accordance with the rules of civil law. The body shall have joint and several liability for damage caused in this manner. If the damage was caused by a resolution of the Board of Directors, any member of the Board of Directors who did not participate in the passing of the resolution or voted against it – and notified the Supervisory Board regarding this in writing within fifteen days after the passing of the resolution – shall be exempted from liability.

The Board of Directors shall make its decisions objectively, having regard to the interests of all shareholders, and striving to be independent of the influence of the management and any given shareholder. The members of the Board of Directors, in their capacity as Board members, may not be given orders by the shareholders of the Company or their employer.

In 2019, the Board of Directors carried out its activities based on an annual work schedule. The Board of Directors holds meetings as frequently as necessary, but at least once every three months. The Board of Directors discusses matters conferred to its authority based on written proposals. It makes its decisions in the form of resolutions, based on the draft resolutions submitted by the proposing person. The proposals and the related draft resolutions are prepared by the management for the Board of Directors. The head of the organisation preparing the proposal and the Deputy CEO exercising professional supervision, or in the absence of such person, the CEO exercising professional supervision shall be responsible for the substantive soundness of the proposals. The members of the Board of Directors shall be notified regarding the time and date and agenda of the Board meetings 5 business days prior to the meeting, and the written proposals shall also be sent to them together with this notice.

The Board of Directors has a quorum if at least half of the Board members is present at the meeting. The Board of Directors passes its resolutions via open ballot, with simple majority of votes (with the exception of the cases set out in the Rules of Procedure of the Board of Directors). No member of the Board of Directors personally involved in the matter discussed, in any way, may participate in the passing of the resolution. The chairman of the Board of Directors orders a secret ballot upon the request of any member of the Board of Directors.

In emergencies, the Board of Directors may also pass resolutions validly via phone, fax or other means, provided that the Company delivers the proposal requiring decision to the Board members in writing, at least by electronic means, and more than half of the members execute their votes in the form of a private instrument with full evidencing force, and send such instrument to the registered office of the Company within two days.

The chairman of the Supervisory Board or the Supervisory Board member appointed by the chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as permanent invitee. The chairman of the Board of Directors may invite the auditor or asset controller of the Company or any other person, who may participate in a consultative capacity. In 2019, the auditor of the Company was invited to one meeting of the Board of Directors, while the supervisor of the Central Bank of Hungary (Magyar Nemzeti Bank; the supervisory body is hereinafter referred to as: "Supervisory Authority", acting in its supervisory role on the system of financial intermediation) responsible for supervision of the Company, and the representatives of MTB Zrt. and the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete) were invited to all meetings of the Board of Directors.

The members of the Board of Directors elect a chairman from among themselves. The work of the Board of Directors is controlled by the Chairman. If the chairman is prevented from performing its tasks, the Board member designated by him/her shall be responsible for performing the chairman's tasks.

The scope of tasks and authority of the Board of Directors are set out in detail in the Articles of Association and the Rules of Procedure of the Board of Directors. The authority of the Board of Directors includes powers related to the strategy and business and financial activity of the Company, tasks and powers related to the operation and organisation of the Company, powers related to capital increase and own shares, powers related to the control of companies under joint supervision with the Company, company founding and investments, rights related to representation of the Company, and powers related to the operation of the Board of Directors.

In 2019, the senior management of the Company was composed of the following: CEO, Deputy CEO. Both were also internal members of the Board of Directors. The Board of Directors exercises the employer's rights over the members of the management via the chairman of the Board of Directors.

The CEO is an employee in employment relationship with the Company, and is the senior manager employee of the Company. The CEO shall perform the management and controlling of the Company's daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, to the employment relationship of the Chief Executive Officer the Labour Code, while to his/her election to the Board of Directors and his/her Board membership the Credit Institutions Act and the rules of the Civil Code on service contracts applied and shall apply.

The Board of Directors and the CEO share the tasks as follows: The CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association, in accordance with the resolutions passed by the general assembly and the Board of Directors. The CEO shall be responsible for taking a decision in cases which do not fall within the exclusive competence of the general assembly or the Board of Directors. The CEO shall regularly inform the Board of Directors and – between the meetings – the chairman of the Board of Directors regarding the matters related to the operation of the Company. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the members of the Board of Directors.

The CEO shall exercise the employer's rights over the employees of the Company, except with regard to the Deputy CEO. The division of tasks and powers of the CEO and the Deputy CEO within the organisation is set out in the by-laws of the Company, and the Board of Directors has the power to approve any amendment thereof that would result in significant organisational changes.

2. Members of the Board of Directors, the Supervisory Board and the management

2.1. Board of Directors

In 2019, the following persons were members of the Board of Directors of the Company:

External, independent members who do not have any other legal relationship with the Company:

VIDA József, chairman – Member of the Board of Directors since 30 November 2016, chairman of the Board of Directors since 5 December 2016

VIDA József is an economist who studied business management, as well as liquidation and bankruptcy law in several universities. His career in the banking sector started at Citibank Zrt. in 1999. In 2003, he switched from the position of Head of Department General of Magyar Takarékszövetkezeti Bank (Bank of Hungarian Savings Co-operatives) to the position of Director of the Active Business Line of Szentgál és Vidéke Takarékszövetkezet (Szentgál and Surroundings Savings Co-operative), of which he became the Managing Director in 2006 and then the CEO. In the past decade, he had a significant role in the integration efforts of savings co-operatives, and from 2007, he represented his region throughout two cycles in the senior representative body of savings co-operatives as a member of the presidency of the National Association of Savings-Cooperatives. He assisted in the work of "Takarék Akadémia" (Savings Academy) and integration companies Takinvest Kft and TAKINFO Kft – leading operators in the field of IT – as founder and officer. He is a member of the Board of Directors of the Magyar Takarékszövetkezeti Bank Zrt. and the CEO of the Magyar Takarékbefektetési és Vagyongazdálkodási Zrt. (Hungarian Savings Investment and Asset Management). The largest merger of the savings co-operative sector took place under his leadership. This resulted in the fusion of ten savings co-operatives and the founding of B3 SAVINGS Co-operative on 1 September 2015, which services almost 130 thousand clients in Budapest and four other counties. In the past years, József Vida actively participated in the implementation of the governmental integration strategy, and supported and assisted in the performance of the tasks necessary for implementation of the Integration Act. In 2014, he was awarded the Károlyi Sándor memorial plaque for his outstanding efforts in relation to the development of the integration of savings co-operatives. In July 2016, he was elected as the Chairman of the Board of Directors of the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete), which office he held until 8 December 2016. On 8 December 2016, the shareholders' meeting of MTB Magyar Takarékszövetkezeti Bank Zrt. elected him as a member of the Board of Directors. Since 18 January 2017, he has been the Chairman of the Board of Directors and CEO of the bank. Since 1 May 2019, following the mergers with savings co-operatives, he has been the Chairman-CEO of Takarékbank Zrt. Besides his work in the savings co-operatives, József is a farmer himself, breeding Hanoverian horses and holding senior positions in several professional organisations (Federation of the National Associations of Hungarian Dog Breeders, National Association of Leonberger Breeders, National Association of Hungarian Hovawart Breeders). In 2016, he graduated in Forestry and Wildlife Management.

SOLTÉSZ Gábor Gergő – internal Board member before 30 November 2016, external member afterwards.

In 2003, he graduated from the Budapest University of Economic Sciences and Public Administration in Finance. Between 2003 and 2004, he worked for OTP Bank Nyrt. in the field of Credit Analysis and Monitoring, and then from 2004 to 2006, for Raiffeisen Bank Zrt. in the field of Project Financing and Loan Syndication. From March 2006, he was Deputy Head of Department of the Corporate and Structured Financing Directorate of FHB Bank Zrt. From 2008, he was Managing Director of the Corporate Directorate and, from 1 December 2010, the Deputy CEO of FHB Kereskedelmi Bank Zrt. He has been a member of the Board of Directors since 24 April 2013. He also held the office of CEO at FHB Bank Zrt, where he was also a member of the Board of Directors. He resigned from his office of Deputy CEO at the Company and his office of Deputy CEO and internal Board of Directors membership at FHB Zrt on 31 January 2015, but he remained a member of the Board of Directors of the Company.

HEGEDŰS Éva – member of the Board of Directors since 18 October 2018

She graduated from the Budapest University of Economics. She started his professional career at a consulting company, from where she moved on to governmental institutions. As a deputy state secretary at the Ministry of Finance, and later at the Ministry of Economy, she managed the preparation of several laws that constitute the fundamentals of market economy in Hungary (Act on Credit Institutions, Act on Bankruptcy, Act on Electric Power), and she coordinated the establishment of several institutions (e.g. Hitelgarancia Zrt.).

Beginning in 1997, she organised the restart of issue of mortgage deeds in Hungary as the Deputy CEO of the Földhiteles és Jelzálogbank (Land Loan and Mortgage Bank). From 2002, she managed the Residential Business of OTP Bank, and she was the chairwoman of the OTP Lakástakarékpénztár (Building Savings Co-operative). Since 2010, she has been managing GRÁNIT Bank, which she has been a shareholder of since foundation.

She was responsible for developing the digital business model of GRÁNIT Bank, thanks to which, the bank – providing services mainly via electronic channels – developed many leading digital services.

She is a member of the Hungarian Banking Association (Magyar Bankszövetség) and the secretary general of the Hungarian Economic Society (Magyar Közgazdasági Társaság). In 2015, she was elected as “Banker of the year” in a secret ballot of bank managers, while in 2016, she was elected as “Female manager of the year”, and she also holds several other Hungarian and international awards.

SASS Pál – He has been a member of the Board of Directors since 31.10.2019.

He graduated from the Budapest University of Economic Sciences and Public Administration in Foreign Trade, and then he studied economics at the Yokohama National University within the framework of a Japanese scholarship programme. He started his career at the Department of International Interbank Relations of Iparbankház Rt., where he was dealing with international interbank relations and banking operations. From 1996, as Director of the Structured Financing Department of OTP Bank Nyrt., he oversaw the loan syndication and international lending transactions as well as the banking group’s borrowing activities. From 2008, as Chief Consultant of OTP Hungaro-Projekt Kft., he dealt with corporate, lending and strategic consulting. From 2010, he was Managing Director of the Directorate General for Borrowing and Liquidity Management of the Hungarian Development Bank. From 2014, as Deputy CEO of Magyar Takarékszövetkezeti Bank Zrt., he headed a business division of the bank (Corporate Lending and Treasury). From 2016, he was Chief Business Advisor on lending, capital markets and strategic affairs of the CEO of Magyar Takarékszövetkezeti Bank Zrt. Since 1990, he has attended and delivered speeches at numerous Hungarian and international conferences on the Hungarian banking system and economy, and has been teaching as a lecturer.

Internal members in employment relationship with the Company:

Dr. NAGY Gyula, CEO – since 26 April 2017

He graduated from the Foreign Trade specialty of the Budapest University of Economics in 1976, after which, in 1981 he also acquired specialist economist qualification, as well as a doctorate in economy. From 1977, worked as the Head of the Export Department of the Ganz Electricity Meter Plant, and later he worked as a salesman of Unicbank Rt and the Head of the Large Corporation Partner Relations Department of Citibank Hungary Rt. He managed the Corporate Business of BNP-Dresdner Bank Rt between 1991 and 1995, and of HVB Bank Hungary Rt between 1995 and 1999. He was a Deputy CEO and member of the Board of Directors of HVB Bank Hungary Rt between 1999 and 2001, and the CEO of Unicredit Jelzálogbank Zrt between 2001 and 2007. From October 2007, he has headed the Partner Refinancing and Integration Independent Department of FHB Nyrt., where he managed the refinancing activities of FHB Group. Since 26 April 2017, he has been the CEO of FHB Jelzálogbank Nyrt. (currently Takaréék Jelzálogbank Nyrt.). He is a master-level property expert and a member of the Research and Statistics Working Group of the European Mortgage Federation.

MÉSZÁROS Attila, Deputy CEO – external member of the Board of Directors between 30 November 2016 and 26 September 2018, internal member of the Board of Directors since 11 October 2018

He also has agricultural engineer qualification, qualification as engineer with specialty degree in economics, and two MBA qualifications. He worked at Credit-Lyonnais Magyarország Bank Zrt, and between 2001 and 2007, at

the Directorate of Large Corporation Relations of K&H Bank Zrt, and as the director of the Credit Risk Management Directorate of the same. Between September 2007 and December 2009, he managed the Restructuring Department of MKB Bank Zrt, and then he held the office of CEO and chairman of the Board of Directors of the Romanian debt collection subsidiary of MKB Bank Zrt. From November 2011, he worked as a financial restructuring consultant at Ernst&Young Tanácsadó Kft, and later in his own company. Between July 2014 and February 2015, he worked under the mandate of Pénzügyi Stabilitási és Felszámoló Nonprofit Kft as a supervisory commissioner during the winding-up of five credit institutions. Between 2015 and 2017, he managed the Subsidiary Management Department of the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete), and he also held the office of chairman of the Board of Directors of the Bóly and Surroundings Savings Co-operative (Bóly és Vidéke Takarékszövetkezet), worked as the managing director of Takarékszövetkezeti Informatikai Kft, and was a member of the Board of Directors of the Common Capital Coverage Fund of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Tőkefedezeti Közös Alapja). He was an external member of the Board of Directors of TakarékJelzálogbank Nyrt from November 2016 until his resignation, and a member of the Supervisory Board of TakarékJelzálogbank Nyrt and TakarékJelzálogbank Központi Követeléskezelő Zrt from 2017. He worked at MTB Magyar Takarékszövetkezeti Bank Zrt. as Managing Director for Risk Management from April 2017, and as Deputy CEO from November 2017, then he headed the Risk Management Division MTB Magyar Takarékszövetkezeti Bank Zrt. (and of Takarékbank Zrt. from 1 May 2019).

2.2. Supervisory Board, Audit Committee

In 2019, the following persons were members of the Supervisory Board of the Company:

DR. HARMATH Zsolt chairman - as of 2 January 2017

He had obtained his undergraduate degree in 1999 in Economics, then qualified as a Chartered Accountant. He finished his postgraduate studies in Law in 2005. From 1999 to 2010 he was employed by Magyar Posta Zrt. where he climbed the corporate ladder. He had started as a cost analyst / controller at the Budapest Directorate, then became Head of Department of Economics in 2001 and Deputy Director of Finance in 2003. From 2005 he had comprehensive responsibility for the financial module of the enterprise resource planning system at Magyar Posta. He had been Director of the management control system, accounting and asset valuations at the Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian National Asset Management) from 2010, then became Head of Finance from 2014. He filled remarkable positions at many companies, including being a member of the Board of Directors at Rába Nyrt., then the chairman of the Supervisory Board as well as the chairman of the Supervisory Board of the Volán corporations.

DR. KOVÁCS Mónika – Member of the Supervisory Board since 2 January 2017

Lawyer, she obtained her degree at the Faculty of Law of the University of Pécs. She started her career in 2005 at the Magyar Közlöny Lap- és Könyvkiadó Kft. as a lawyer. From 2009 she managed the gazette and the electronic publications business as Business Director. Her responsibility covered the legal matters as well as the management of the customer services and sales points, and the complete editorial board. Between 2005 and 2008 she worked as an external lecturer at the Department of Constitutional Law at the University of Pécs. She was a member of the Supervisory Board at Magyar Posta Zrt. and also worked as deputy state secretary at the Ministry of National Development.

PÓRFY György – Member of the Supervisory Board since 2 January 2017

He graduated at the University of Economics. He has been working since 1994 in banking, first he had started at Merkantil Bank, then filled management positions at BNP-Dresdner Bank Hungária Rt. and later at Kereskedelmi és Hitelbank Rt, then from 2002 he became Head of Department, then managing director at the Directorate for Large Enterprises at Unicredit Bank Hungary Zrt. He had been CEO of Unicredit Leasing Hungary Zrt. from 2010 and then became CEO of Unicredit Jelzálogbank Zrt. from 2012. From 2016, he was Managing Director of the

Corporate Business Line of MTB Zrt., and since 1 May 2019, he has been holding the same position in Takarékbank.

DR. REININGER Balázs – Member of the Supervisory Board since 2 January 2017

Lawyer, Head of Office at Reininger Law Firm. He was born in Budapest in 1977. He completed his legal studies in 2001 at the Faculty of Law of Eötvös Loránd University with excellent results. He studied law simultaneously with Hungarian then Finnish scholarship at the Faculty of Law of the University of Helsinki. He had spent his years of internship at international law firms, then after successfully taking the professional exam he founded his law firm in 2005 with his own name, which he has been managing since that time, representing domestic and international companies in economic and commercial cases and providing strategic consultation. Simultaneously with his legal business he was also the head solicitor at PLUS Élelmiszer Diszkont Kft. between 2007-2008. During and after his university studies he was an active external lecturer at the Department of Roman Law of Eötvös Loránd University. DR. REININGER Balázs has been a member of the Arbitration Panel of the Hungarian Chamber of Agriculture since 2013; a member of the Public Procurement Authority Council since December 2015, and chairman of the Supervisory Board of Új Világ Nonprofit Kft. since April 2016.

DR. GÖDÖR Éva – Member of the Supervisory Board since 1 August 2018

Lawyer. She obtained her legal degree at the Faculty of Law of Eötvös Loránd University in 2002. She passed her professional exam in 2006. Since 2007 she has been involved as a freelance lawyer in the support of lending and workout activities of financial institutions and savings cooperatives, and in property law, employment law, corporate law cases as well as in the management of cases related to social institutions.

GÖRÖG Tibor – member of the Supervisory Board since 15 October 2018

He graduated at the Faculty of Economics of the University of Novi Sad. With more than 20 years of experience in domestic and international finance and economics he joined the savings cooperative industry in 2012. From 2015, he was Strategic Managing Director of 3A Takarékszövetkezet, and from 2018, Deputy CEO of Takarékbank Kereskedelmi Bank Zrt. Until 3 June 2018, he was a member of the Supervisory Board of Magyar Takarékszövetkezeti Bank Zrt.; subsequently, he was appointed Head of the Operations Division. He is also a member of the Supervisory Board of the Integration Organisation of Cooperative Credit Institutions, and a member of the Board of Directors of Magyar Takarékbank Ellátó Zrt.

All of the above members of the Supervisory Board are independent, they do not have any other legal relationship with the Company. Accordingly, the general assembly of the Company elected DR. HARMATH Zsolt, PÓRFY György and GÖRÖG Tibor from the Supervisory Board to be members of the Audit Committee established in accordance with the Credit Institutions Act.

2.3. Company management

In 2019, the Company's management included the following members:

CEO:

DR. NAGY Gyula since 26 April 2017

Internal member of the Board of Directors. See introduction in Section 2.1.

Deputy CEO:

MÉSZÁROS Attila - since 11 October 2018

Internal member of the Board of Directors. See introduction in Section 2.1.

Detailed introduction of the professional career of the members of the Board of Directors, the Supervisory Board and the Management is available on the Company website (www.takarek.hu).

3. Information on the work performed by the Board of Directors and the Supervisory Board in 2019

3.1. Description of the work performed by the Board of Directors in 2019

3.1.1 Summary of the tasks executed by the Board of Directors

The Board of Directors had a total of 6 meetings in 2019, whereof 4 was a shared meeting with the Supervisory Board, and there was one instance of an unscheduled meeting as per the agenda of the board. On 18 occasions, resolutions were passed outside a meeting. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The Board of Directors, apart from deciding on tasks set out in the work schedules, many times decided at the meetings and within the scope of written voting on matters not stated in the work schedule but within the competence of the board.

In most of the cases the reports, notices and other proposals compiled by the management or in cooperation of the manager of the field of practice concerned in the consideration of the reviewed topic were submitted in a written form to be on the agenda of the meetings. The Board of Directors discussed the topics on its agenda with due diligence, the members of the board supplemented and clarified the proposals on a regular basis with their professional comments and remarks, or phrased amendments where it was applicable.

Out of the topics discussed by the Board of Directors in 2019, the following should be highlighted:

- In 2019, the Board of Directors continued to pay particular attention to the implementation of the applicable integration policies.
- In 2019, the Board of Directors continued to pay particular attention to the implementation of measures targeting the establishment of a clear mortgage bank profile.
- During the 2019 meetings, similarly to earlier years, the Board of Directors discussed the management report on the current business and financial situation of the Company as a permanent item of the agenda, and in doing so, they were able to monitor the operation and financial position of the Company in an ongoing manner. As a result of that the Board of Directors always had sufficient information during the year on the internal and external conditions impacting the operation of the Company, it was able to identify situations that may result in negative impacts, and respond to them with the necessary measures, and to support the work of the management with professional recommendations.
- In 2019, the Board of Directors continued to pay particular attention to the analysis of the financial operations of the Company.
- In 2019, the Board of Directors continued to discuss regularly and quarterly the management reports on the lending, liquidity, market and operational risks of the Company.
- In 2019, the Board of Directors continued to deal with issues related to the implementation of the Remuneration Policy.
- The Board of Directors found the management proposals focusing on the amendment of policies delegated to its competence to be sufficiently substantiated in every instance, and approved them while concluding a decision on a minor amendment.

- In 2019, the Board of Directors continued to pay attention to audits conducted at the Company by external authorities (such as the Nemzeti Adó- és Vámhivatal [National Tax and Customs Administration] and Magyar Nemzeti Bank [Hungarian Central Bank]), and to the development and implementation of action plans associated with the conclusions of audits. None of the audits have concluded any non-compliance or objection against the work of the Board of Directors.
- The Board of Directors, on one hand via regular business and financial reporting, and on the other hand within the scope of individual agenda items, was informed on the operation of TakaréK Kereskedelmi Bank Zrt. on a regular basis, and on its business and financial position, as the Company constitutes to be a majority shareholder of the entity. Also in 2019, the Board of Directors, as the body exercising shareholders' rights over TakaréK Kereskedelmi Bank Zrt. on behalf of the Company, exercised its rights over the same in accordance with the legal regulations, and in this context, it approved the business report and the financial statements of TakaréK Kereskedelmi Bank Zrt., and adopted the necessary and relevant resolutions, subsequently, during the extraordinary shareholders' meeting held on 27.08.2019, a resolution was adopted on the sale of the Company's shareholding in TakaréK Kereskedelmi Bank Zrt.
- The management provided information on a regular basis to the Board of Directors on the execution of earlier resolutions of the board, and on the internal instructions that enter into force on a group level and on a quarterly basis.

3.1.3. The Board of Directors' cooperation with other organisations

The Board of Directors sustains a cooperative and fair relationship with the Supervisory Board and the management. The CEO of the Company was present at every board meeting where it provided detailed information on current matters concerning the operation of the Company, and gave response to questions arising within the scope of the agenda. The chairman of the Supervisory Board was always invited to the meetings of the Board of Directors, where it was able to elaborate its opinion and recommendations at all times, therefore the shareholders' representation was always ensured during the management of the Company. Nevertheless, the consultations and exchange of ideas between the chairmen of the two bodies, the CEO and its deputy, were regular between the individual meetings.

3.2. Description of the work performed by the Supervisory Board in 2019

3.2.1 Summary of the tasks executed by the Supervisory Board

The Supervisory Board of the Company (hereinafter: "SB") operated in 2019 in accordance with the approved work schedule. The work schedule included the individual tasks of the board, and the review of the audits executed by the internal audit team (hereinafter: "Internal Audit") of the Company. In 2019, the SB held four meetings, one of which was a shared meeting with the Board of Directors, and resolutions were passed outside a meeting on eight occasions. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The SB, further to the consideration of the regulations of the Hungarian Civil Code and the Credit Institutions Act, gained information on the business and financial position of the Company on an ongoing basis, and on the most important relevant questions concerning the operation, and on the meetings of the Board of Directors and the decisions concluded by them.

Further to that, the SB reviewed, discussed and evaluated other topics within the scope of its own initiative, such as:

- implementation of the tasks included in the action plans prepared in consideration of the internal audit reports of 2019,
- the classification of the Company's receivables,
- the concept of the Company's business plan for 2019,
- the quarterly reports of the Company on its lending, market, liquidity and operational risk, and
- the annual report on the activities of the Compliance Directorate/Group.

In 2019, the SB continued to pay attention to the audits conducted at the Company by the Supervisory Authority and other external authorities, and to the development and implementation of the action plan associated with the conclusions of the audits. None of the audits have concluded any non-compliance or objection against the work of the SB.

The SB thoroughly discussed the audits conducted by the Internal Audit team in different topics. These audits fundamentally targeted governance, management, administration (process), compliance and IT security. Accordingly, they included, among other things, an examination of the ICAAP framework and of credit risk from the aspect of ICAAP, and the implementation of review as defined by the provisions of the EU regulation and directive on the management of lending and operational risks and on liquidity compliance. They also included compliance audits in terms of the business and operation of the Company, and audits in consideration of the compliance with the resolutions of the Magyar Nemzeti Bank.

The Internal Audit department, in accordance with the regulations of the Credit Institutions Act, regularly informed the Supervisory Board and the Company's management about the results of conducted investigations and the implementation of action plans prepared as a response to the conclusions of the internal audits. The Internal Audit team provided information on the operation of the control functions, on the revealed deficiencies impacting the achievement of the objectives of the Company as well as its performance.

The SB paid particular attention to the Company to have a comprehensive and efficient control system. The internal audit system, earlier approved by the SB, was operational in 2019 at the level of the TakaréK banking group, in accordance with the relevant legal regulations, the Recommendations on Responsible Corporate Governance and the Authority's recommendation on operating inner lines of defense.

The Internal Audit team has its own medium term strategic objectives until the end of 2022, approved by the SB. An attachment of this is the risk map and the audit universe serving as the fundamental basis of the Internal Audit team's planning. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors ("IIA") – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.

3.2.2. The operation of the Supervisory Board

The meetings' agenda mainly consisted of written reports and proposals. The board members had no formal division of labor. The members - according to their different professional competence and experience - represented different points of view during the evaluation of certain inquiries' results.

3.2.3. The Supervisory Board 's cooperation with other organisations

In 2019, the Supervisory Board worked together with the Board of Directors, the management and the Company's auditor continuously, objectively and successfully. The chairman of the SB participates in board meetings as a constant guest, where he had the opportunity to explain his point of view representing the SB.

The CEO and/or his deputy CEO participated in every board meeting, informed the board members appropriately and gave detailed answers to their questions.

Consultations and discussions between the Board of Directors, the chairman of SB and the CEO were provided even between meetings.

The auditor participated in the SB's meetings as a constant guest, where he supported the board's work with his professional observations if needed.

4. Description of the internal audit system and evaluation of its operation in 2019

The internal audit system was implemented in 2019 at the level of the banking group in accordance with the relevant legal regulations, with Recommendations on Responsible Corporate Governance and with MNB's recommendations on operating inner lines of defense. The internal audit system contains elements of responsible internal governance, risk management, compliance function, as part of the internal audit system the control that is built in work procedures, management control and independent internal audit function.

The Company's management unites under responsible corporate governance the activities of the organisational units representing control function elements, informs about compliance with principles, expects reports and in its decisions certain control functions' statements and experiences are reflected.

Changes in the compliance function within the internal lines of defense:

In the Integration, compliance and banking security functions were centralised as of 1 June 2019 and since then have been performed at a group level by the Compliance and Banking Safety Directorate of MTB Magyar Takarékszövetkezeti Bank Zrt. based on a service level agreement (SLA); the substantive scope of group-level regulations have been extended to cover affiliated companies.

The above-mentioned SLA was entered into between the Compliance and Banking Safety Directorate of MTB Zrt. and TakaréK Jelzálogbank on 06.06.2019.

The Compliance and Banking Safety Directorate is divided into three professional fields:

- 1) Compliance Directorate (data protection, general compliance, customer protection, capital market compliance)
- 2) Protection Directorate (anti-money laundering, anti-fraud, conflict of interest)
- 3) Bank Security Directorate (physical security, information security, audits, relations with authorities)

4.1. Summary of risk management principles

Takarék Jelzálogbank (Takarék Mortgage Bank) and its subsidiary, TakaréK Kereskedelmi Bank¹ (Takarék Commercial Bank) are members of the Integration Organisation of Co-Operative Banks (hereinafter: "Integration Organisation" or "SZHISZ") and the banking group led by the Magyar Takarékszövetkezeti Bank Zrt. (hereinafter: MTB Zrt or MTB).

The Integration Organisation and its members are jointly and severally liable for one another's obligations in accordance with the provisions of Act V of 2013 on the Civil Code. Joint and several liability covers any and all claims against the Integration Organisation and its members, irrespective of the date when such claims arise.²

¹ On 29 October 2019, TakaréK Jelzálogbank Nyrt. sold its entire shareholding to MTB Magyar Takarékszövetkezeti Zrt.

² Section 5/A (1) of Act CXXXV of 2013 on the integration of savings cooperatives and the amendments to economic related acts.

Pursuant to the decision of the Central Bank of Hungary (Resolution No H-JÉ-I-209/2014), members of the Integration are exempt from the prudential requirements applicable to credit institutions and investment firms and from the individual application of the provisions of Part Two–Eight of Regulation No. 575/2013 of the European Parliament and of the Council (of 26 June 2013) on prudential requirements (CRR) and the amendment of Regulation No. 648/2012/EU. The group led by MTB Zrt. shall meet these requirements collectively, in a consolidated manner.

MTB Zrt., as the entity managing the Integration's business activities, controls credit institutions and companies that are consolidated in terms of meeting prudential requirements on a consolidated basis in order to achieve the strategic goals of the Integration. Accordingly, it ensures that the risk management principles, methods, risk assessment, measurement and control procedures are unified and harmonized within the Integration and meet the legal requirements. Integration members make their own risk management decisions independently in accordance with the Integration's principles, regulations and within the framework set for the Integration and its members.

The Integration's business goals are defined and reached by bearing the risk appetite in mind. The risk appetite needs to be harmonised with the financial resources which are available to cover possible losses. Risk management's main aim is to protect the Integration's financial power and good reputation and to contribute to business activities enhancing the shareholders' value.

The boards and committees of TakaréK Jelzálogbank discuss regularly the proposals concerning the review and modification of risk measurement and management methods, procedures and the reports presenting risk developments.

4.2. Risk management organisation

The risk management organisation of TakaréK Jelzálogbank is separated from the business units and is supervised by the Deputy CEO.

4.3. Monitoring, feedback

The Company operates elements of inner lines of defense with regard to relevant legal regulations and supervisory recommendations in order to minimise risks. Accordingly beyond operating the risk management organisation

- a) the Compliance and Banking Security Directorate (hereinafter "Central Compliance Directorate") of MTB Zrt. ensures within TakaréK Group compliance with principles and regulations of legal regulations, other professional practices that are not equivalent to legal regulations, authority's recommendations, guidelines and decrees and with inner rules (hereinafter: „compliance rules”) by the division responsible for compliance (hereinafter: „Compliance Directorate”), prevention of its violation, control and
- b) operates the internal audit system, the parts of which (management control, that is built in work procedures, management information system and independent internal audit function) spread on very institution and activity of the Company, are built in daily activities and can be traced, furthermore they give regular feedback to the relevant management, governance level.
- a) The Compliance function is performed by MTB Zrt.'s Compliance and Banking Security Directorate under a service level agreement (SLA). Within the Compliance and Banking Security Directorate, the Compliance Directorate coordinates and ensures the fulfilment of compliance rules and the performance of compliance audits of members of the banking group.

The Compliance Directorate carries out its work based on an annual work schedule – also covering TakaréK Jelzálogbank – approved by the executive body of MTB Zrt.

Aim of its activities is to support - on bank group level, in the Mortgage Bank as well - the organisations' prudent, reliable, efficient operation in compliance with legal regulations and to assist in the organisation's smooth and sufficient operation, to maintain trust in the institution, furthermore to help group members avoiding legal sanctions (supervisory, competition law, compensation, etc.), great financial loss and reputational damage.

In 2019, compliance related tasks were performed at a banking group level starting from 01.06.2019 by the Compliance and Banking Security Directorate of MTB Zrt.

The Anti-Money Laundering Department of the Compliance and Banking Security Directorate carries out screening and analytical activities using customer data systems and external software, supporting the operation of a modern and effective anti-money laundering system by screening and examining customers and transactions on a risk basis. The Department's analyses and assessments identify and mitigate current and future customer, transaction and geographical risks, and thereby support risk management and business processes as well.

The Compliance Directorate's Consumer Protection Centre performs consumer protection related control functions and provides support to the Company, thereby helping TakaréK Jelzálogbank to comply with consumer protection requirements. Details of the so-called Consumer Protection Officer (CPO) were reported to the Supervisory Authority in the framework of the group-level consumer protection function. Tasks related to this function are carried out by a staff member of the Compliance Directorate's Consumer Protection Centre.

Data protection + Data Protection Officer

The Compliance Directorate's Data Protection Centre performs group-level personal data protection and confidentiality tasks in accordance with the integration-level Privacy Policy and Confidentiality Policies issued by the Integration Organisation of Cooperative Credit Institutions. Some of the activities carried out at the integration level in 2019 also indirectly served to ensure TakaréK Jelzálogbank Nyrt.'s compliance with the data protection regulations (e.g. publication of a general privacy notice). Specifically with regard to personal data protection activities related to mortgage loans, in 2019, a review of special mortgage banking activities began in order to supplement the information provided on data protection with specific information related to refinancing activities. In that context, personal consultations were conducted and the Data Protection Centre prepared a draft privacy notice related to the mortgage business line and sent it to TakaréK Jelzálogbank.

Conflict of interest

Tasks related to the handling of cases of conflict of interest are carried out by the Conflict of Interest Centre operating within the Protection Directorate.

In accordance with the provisions of the Credit Institutions Act and the Group Conflict of Interest Policy, during their employment, employees may not engage in any conduct that would jeopardise TakaréK Jelzálogbank's legitimate economic interests.

This function also conducts conflict of interest investigations for candidates during the pre-employment process, for employees already having an employment contract and also for senior executives.

In addition to identifying and managing conflicts of interest involving employees, in order to avoid and prevent any potential conflicts of interest, this function conducts documented reviews during the sale of

receivables or assets to determine whether the buyer has any interest in the debtor of the receivable to be sold. This function is also responsible for conducting conflict of interest investigations of intermediaries and of service providers to which activities are to be outsourced (before the conclusion of the relevant contracts).

Fraud Investigation and Authority Relations

Within the Compliance and Banking Security function, the Banking Security Directorate's Fraud Investigation and Authority Relations Department is responsible for conducting investigations into internal and external abuses and crimes and for operating preventive monitoring systems. The Fraud Investigation and Authority Relations Department carries out human security activities for employees, and participates, among other things, in the performance of activities related to classified requests from authorities in accordance with applicable laws.

Based on the records of the Fraud Investigation and Authority Relations Department, there was no fraud incident or suspected fraud at TakaréK Jelzálogbank in 2019.

Following the entry into force of the SLA, MTB, as Business Management Organisation of the Integration, through its quarterly reports informed the Board of Directors and the Supervisory Board of MTB about the activities of the Compliance and Banking Safety Directorate relevant to the Company and the compliance related activities of the Company, as a member of the banking group.

ad b) Elements of control and management control built in work procedures were included in job descriptions and current procedures, the application principles were included in internal orders, organisational and operational regulations about control systems. The application principles were established in order to support the Company's efficient operation, reaching the Company's goals, the operation in compliance with legal regulations and the revealance of possible risks with providing appropriate solutions to them.

An integral part of internal audit is the independent internal audit organisation.

The independence of the Bank's internal audit organisation is ensured by the relevant regulations because according to these, the internal audit/internal auditor can not be entitled to any other position than controller and can not participate in bank procedures, decisions. The annual work schedule of Internal Audit is approved by the SB; further audit tasks can only be determined by the SB and the Head of Internal Audit, in agreement with the SB and the Company's CEO. The Supervisory Board is managing the internal audit organisation. The Head of Internal Audit has a reporting obligation to the SB. The direct technical management of internal audit activities is carried out at a banking group level, while methodical guidance through SZHISZ.

The internal audit informed the Supervisory Board and the Company's management about the results of conducted investigations according to regulations of Credit Institutions Act. The Company's internal audit reports to the SB about its activity and informs about control function operations and revealed deficiencies. The Internal Audit is continuously monitoring and controlling the fulfillment of measures to eliminate the revealed deficiencies and regularly reports about it to the SB and the Company management. As the Company joined to the Integration Organisation of Co-Operative Banks, the Company's internal audit organisation had an obligation to data reporting towards MTB Zrt's internal audit, its base is to be applied obligatory by the Company and is part of MTB Zrt's internal audit regulation system for the Integration.

The Internal Audit's activity planning and its fulfillment is based on risk analysis, which analyses and examines the whole scale of business procedures. Also in 2019, Internal Audit had an internal audit strategy (with long-term audit plan), internal audit regulations, a manual to support internal audit tasks, a risk and examination result assessment methodology, regulations for the reporting and information system, all approved by the SB. Taking all

these into account, it prepares the internal audit's annual work schedule which is afterwards approved by the SB. Taking its competency into account, it has access to all information and documents needed for the examinations.

Internal Audit's main tasks for 2019 were to support, through the conduct of general and thematic audits, the achievement of the Company's and TakaréK Group's strategic goals, proper operation, the control system's operation, with particular regard to the performance and compliance of refinancing activities and the issuance of mortgage-backed securities, as well as to meet the expectations of the Company's managers and control bodies and carry out the tasks determined by the same, based on the experience gained from previous years' audits and adjusting the audits to the market environment. A key task and aim was to review compliance with the legal framework in practice and regularity, in order to reduce risks. A further aim was to ensure that audits promote the efficient functionality and operation of control systems to identify and eliminate any deficiencies in the field of meeting the requirements applicable to controls built in work procedures and to managerial controls, and to have feedback in a relatively short period of time in case of a new activity or work procedure in order to handle any deficiencies and risks efficiently.

4.4. The auditor's activities

The Company's auditor for the 2019 financial year was Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (with registered office at H-1068 Budapest, Dózsa György út 84/C.; registration number: 01-09-071057; chamber of commerce member no: 000083; registration number as a qualified financial institution at the Authority: T-000083/94; hereinafter: „Auditor”). On behalf of the Auditor, the audit tasks were carried out by MOLNÁR Gábor (mother's name: SZENDRŐDI Ildikó; place and date of birth: Budapest, 18.01.1980; place of residence: H-1031 Budapest, Muzsla utca 8; Chamber registration number: 007239; registration number with the Supervisory Authority: E007239; hereinafter: „natural person auditor”).

In 2019 Deloitte Könyvvizsgáló és Tanácsadó Kft. did its annual audit tasks.

The Auditor completed his assignments according to the contract and was confirmed by the Company.

5. Presenting the Company's publication policy and insider trading policy

5.1. The Company's publication policy

The Company's Board of Directors attaches great significance amongst the requirements of responsible corporate governance to the transparency of Company operations because the Company's publication policy affects its reputation. Information that reflects efficient operations authentically has strategic importance, if it enhances shareholders' and other concerned parties' trust towards the Company.

The Company has to fulfill every announcement and publication obligation in accordance with legal regulations, in a compulsory form until the deadline. The Company has further responsibility beside its publication obligation to prevent suspicion of information misuse against any employee and to provide the same information at the same time for every shareholder by announcing them organised. The management is obliged to ensure that the Company's publication practice is in accordance with the Board of Directors' principles.

The Company ensures that during information publication the information is accurate, obvious and understandable, that business secrets are appropriately protected, secret information is handled right, with appropriate and punctual timing of the publication no unauthorized person can access to the information so that misuse of this information can be prevented and market operators, investors and shareholders have the opportunity to be informed about events in connection with the Company in the frame of regulated and announced procedure at the same time.

The Company's publication policy gives priority to present following facts:

- the Company's main aims;
- the Company's policy in connection with its main activity, its business ethics, its partners, competitors and other concerned parties;
- result of the Company's activity, management;
- the risk factors that affect the Company's operation, management and the Company's risk management principles;
- its solvency margin, the amount of capital requirement,
- remuneration policy,
- the Company's managers, their professional experiences and principles for their remuneration;
- company management practice, structure of the company management system;
- ownership structure.

The principles of information publication in connection with the Company, approved by the Board of Directors are published on the official website of the Company. The internal audit examines the compliance of publication procedures.

5.2. The Company's insider trading policy

According to the regulation no 596/2014 of the European Parliament and of the Council on market abuse (hereinafter: MAR) the persons having managerial responsibilities within the Company, as issuer, and in certain cases as defined in MAR, the persons closely associated with them shall notify the Company and the Central Bank of Hungary immediately but within no later than three business days after the date of the transaction about transactions conducted on their own account relating to the Company's shares, debt instruments or derivatives or other financial instruments linked thereto (Article 19(1) of MAR). Article 19(7) of MAR and the related implementing regulation define the transaction types with obligation to notify. The obligation to notify transactions applies to all transactions once a total amount of EUR 5,000 has been reached within a calendar year. The threshold shall be calculated adding without netting all above mentioned transactions (Article 19(8) of MAR).

The Company has a list of all persons discharging managerial responsibilities and persons closely associated with them according to Article 19(5) of MAR.

A person discharging managerial responsibilities within the Company shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report.

6. Methods of practicing shareholder rights and presenting the rules in connection with the organisation of the general assembly

6.1. Rules of practicing shareholder rights

The shareholder is entitled to practice his rights in possession of the owner certification defined by the legal regulations on shares and stocks. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. The shareholder needs an entry on the list of shareholders in order to practice his rights in connection with the general assembly.

The shareholder shall practice his rights personally, by a substitute (representative) or by a shareholder substitute defined by the Capital Market Act. According to the Articles of Association members of the Board of Directors and the Supervisory Board and the Company's managers can become representatives if they have clear written voting instructions for every proposal for a decision as substitutes by the party for whom they act. The Company's

auditor and the Company's property inspector can not become representatives. The shareholder may assign a substitute who represents him in the general assembly if he sends the form included in the Annex 1 or 2 of the Articles of Association filled out as a private deed to the Company by post or as an electronic document until the end of the work day before the day of the general assembly.

The shareholder is entitled to receive the percentage of the Company's results after tax according to accounting legislation that is ordered to be divided by the general assembly corresponding to the name value of his shares (dividends). Shareholders who are on the Company's shareholders list on the day that is determined by the general assembly's decision on dividend payment are entitled to receive dividends. Between the beginning date of dividend payment and the date of decision on dividend payment has to be a period of 20 work days.

If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.

The shareholder is entitled to participate in general assembly, ask for information and make remarks. The Board of Directors can refuse to provide information if it offends the Company's bank or business secrets. The shareholder has proposal and voting rights provided by his shares.

The shareholder has every minority rights ensured by the Civil Code.

6.2. Summary of general assembly organisation regulations

The supreme body of the Company is the general assembly. The Board of Directors has to call the general assembly at least 30 days before the beginning of the general assembly on places of publication determined by the Articles of Association by a published announcement. Shareholders who notified the Company in writing about their claim, need to be informed in electronic form about the calling of the general assembly.

The key data of the annual and the consolidated annual financial statements of the Company, prepared in accordance with the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board shall be disclosed to the shareholder twentyone days before the date of the general assembly at the latest.

If the general assembly had been convened improperly, then the general assembly may be held and resolutions may be passed as well, however, exclusively in the presence of all shareholders entitled to vote, provided that they grant their consent to hold the general assembly.

The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the general assembly shall not have a quorum, at least ten and at most twentyone days after the original date a second general assembly shall have a quorum in cases of the original agenda regardless the number of participants.

The general assembly can be suspended at most once by the chairman. If the general meeting is suspended, then it shall be continued within thirty days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

12.1. In the general assembly every ordinary share from „A” series with HUF 100, that is hundred Forint name value entitles to one vote and every ordinary share from „C” series with HUF 1000, that is thousand Forint name value entitles to ten votes³. The Company like the general assembly performs ownership compliance determined

³ Owners of shares of „B” series with dividend priority are not entitled to vote and have no voting rights in the general assembly. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with

by the Capital Market Act, stock market regulations and KELER Zrt's regulations which is dated in the period of time between the 7. and 3. stock market days before the general assembly. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the day of ownership compliance and whose name is included in the list of shareholders on the second work day before the beginning day of the general assembly at 18,00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transferring his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

The general assembly makes a decision in cases determined by 12.6 point of the Articles of Association at least by a three-fourths majority of votes (qualified majority, 75 % + 1 vote). In every other cases the simple majority of votes (50% + 1 vote) is needed for decision making. Abstentions are counted as against votes.

The detailed rules on organisation of the general assembly are included in 11-13. points of the Articles of Association.

the voting rights that are connected to ordinary shares of „A” series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

7. Remuneration Statement

7.1. Remuneration principles for the year 2019

The Remuneration Policy's review was approved by MTB Magyar Takarékszövetkezeti Bank Zrt.'s Supervisory Board by way of Supervisory Board decision No. FB-3/12/2019, by its Board of Directors by way of Board of Directors' decision No. IG-3/12/2019, by its Remuneration Committee by way of Remuneration Committee decision No. JavB-1/2/2019, by its Risk Management Committee by way of Risk Management Committee decision No. KkB-1/4/2019 on 09 April 2019.

The Remuneration Policy took effect as directly applicable regulations under No. 59 for Co-Operative Credit Institutions and Takarékbank Group on 1 January 2019.

The Remuneration Policy had to be discussed and approved by the Supervisory Boards of Cooperative Credit Institutions, including TakarékJelzálogbank Nyrt. Considering that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementing regulation was necessary. Implementation of the "KM" Annexes to the Remuneration Policy was approved by the Supervisory Board of TakarékJelzálogbank Nyrt. by way of decision No. 22/2019. (5 June).

The essence of the Remuneration Policy can be summarised as follows:

Aim of the Remuneration Policy is to

- establish a remuneration system according to the Integration Bank group's medium- and long-term vision
- which is clear, transparent, can be planned exactly for every employee,
- in accordance with the Government Decree 131/2011. (VII. 18.) on proportionality principle.

The basic principle of the Remuneration Policy is to harmonise the Bank group members', the Cooperative Credit Institutions' business goals and the employees' personal goals on long-term.

The Remuneration Policy's **scope of subjects** are the following companies:

- Cooperative Credit Institutions
- Members of the Takarékbank Group
- Mediators and agents acting on behalf of MTB Zrt. according to the Act on Investment Firms and Commodity Dealers (Act CXXXVIII of 2007, "Investment Firms Act")

The Remuneration Policy's **scope of persons** are every manager and employee in employment status of the Integration bank group, beside general regulations 117. § Section (2) of Credit Institutions Act, annex 13 of Collective Investments Act determine special rules in connection with highlighted persons. The scope of the Remuneration Policy covers every relevant person pursuant to the Decree No. 2017/565 performing investment service activities as defined in the Investment Firms Act.

Highlighted persons (identified staff)

- I. Category: Senior management of the Company
- II. Category: Managers with risk-taker, compliance and internal audit function
- III. Category: Employees who belong to the same remuneration category as the I.-II. categories and whose activities have a major effect on Member Bank's risk-taking

According to the Directive 604/2014 of the European Parliament and to technical standards of quality and quantity criteria on categorising the employees having a great effect on the institution's risk profile, further concerned persons not listed in category I-II.

- IV. Category: employees identified on a consolidated level whose activities have great effect on the Integration's risk management but are not identified on group member level in categories I-III.

Highlighted persons have to be identified annually according to the self-assessment of the group member. The main criteria for identification are not the names of the functions but the tasks and responsibilities connected to the function.

Remuneration types:

1. Basic remuneration elements
 - 1.1. Base salary
 - 1.2. Benefits
 - 1.3. Honorarium
 - 1.4. Loyalty bonus (maximum 2 months base salary)
2. Performance-based remuneration elements

All other elements of remuneration that fail to meet the criteria listed under basic remuneration shall be considered as performance-based remuneration, especially the bonus, productivity bonus, productivity reward, reward, commission, project commission, 13th month salary, severance payment or the payment of an amount related to a termination of employment contract by mutual agreement.

2.1. Bonus - for key personnel

Bonuses can be awarded to employees who are considered key personnel, the conditions for bonuses is the discretionary decision of the employer, the employer is not required to set a bonus.

➤ **Bonus 1:**

Indicators related to targeting shall be as follows in case of Member Banks operating as credit institutions:

- pre-tax profit/loss of the Member Bank
- risk indicators of the Member Bank
- ratio of non-performing loans and changes in the ratio
- compliance to the capital requirements
- changes in the indicator(s) to measure liquidity risk

Indicators related to targeting shall be as follows in case of a Member Bank operating as other than a credit institution

- pre-tax profit/loss of the Member Bank
- additionally minimum two and maximum three indicators of different risks (risk indicators) related to key risks associated with activities

➤ **Bonus 2:**

In case of its application, deferral is not required and phantom shares are not applicable.

Amount of bonus, breakdown of targeting

According to Section (1) of Point 118 of the Credit Institutions Act, the performance-based remunerations cannot be more than 100% of the basic remuneration. Depending on its classification, the amount of performance-based remuneration may be equal to 50–100% of the basic remuneration.

General breakdown of targeting:

- 40% depending on the pre-tax profit/loss of the Member Bank

- 30% depending on risk indicators
- 30% depending on individual indicators

and in case of entities with tasks related to internal audit:

- 30% depending on the indicators and performance of the department
- 60% depending on individual indicators and performance
- 10% managerial competences

Eligibility criteria

Employees are eligible to bonuses if they fulfil all of the following criteria:

- The target for the subject year for them was realised,
- They spent at least half of the assessed period in active employment at a Member Bank (except if different requirements are defined in their labour contract),
- They are employed by a Member Bank on the last calendar day of the assessed period and on the day of the payment (the last payment shall be 3 years after the subject year) and were not under any procedure aiming to conclude their employment (resignation, of immediate effect, dismissal initiated by the employer or the employee, mutual agreement). Labour movements between Member Banks shall be regarded as uninterrupted employment from the aspect of the Remuneration Policy.

Payment of bonuses

Assets for bonus payments:

For Bonus 1:

- at least 50% in share-linked instruments (phantom shares, phantom investment units)
- up to 50% in cash

For Bonus 2:

- 100% cash

Payment of bonuses:

For Bonus 1:

Performance-based remuneration for key personnel shall be paid within a three-year period, in the following way:

- first year after the subject year 60%,
- deferral1: second year after the subject year 20%,
- deferral2: third year after the subject year 20%.

For Bonus 2:

- first year after the subject year 100%,

Payment shall be excluded, if

- the capital adequacy ratios are below the level prescribed by law or the internal rules of the integration – in case of Member Banks operating as credit institutions,
- the economic result of the group member in the subject year is loss (except if – in accordance with the preliminary decision of the Supervisory Board – the MTB Zrt Board of

Directors, TakaréK Jelzálogbank Nyrt. Board of Directors/, TakaréK Kereskedelmi Bank Zrt. Board of Directors/, SZH Board of Directors decides otherwise).

Apart from these, payments shall be excluded in case of savings banks if the economic result of any of the savings banks is loss.

Beyond this, bonus payments shall only be made in case the group-level SREP indicator stays above the required amount.

2.2. Productivity bonus

The conditions for productivity bonuses shall be set as the discretionary decision of the employer, the employer is not required to set a productivity bonus.

Indicators related to targeting shall be especially the Member Bank's

- pre-tax profit/loss
- profit/loss of the department

The amount of the productivity bonus shall not be more than 50% of the annual base salary.

2.3. Reward

Rewards shall be awarded based on the evaluation of the individual performance target, or the discretionary decision of the employer, as a follow-up recognition of the employee's work, based on an evaluation. Rewards shall be paid in cash.

2.4. Commission

Payments to group members will be made as per the separate policy, from the amount earmarked for dividends in the annual operation plans, after the monthly or quarterly appraisal, in cash.

2.5. Target premiums /project premiums

If working on central programs, (e.g. HUF conversions of loans, consolidation loans, additional work performed during merge) employees may be awarded target premiums and/or project premiums, except for prioritized individuals belonging to Group 1.

2.6. Payouts for members of the Board of Directors who perform their duties within the scope of employment relationship

On the basis of the proposal of the Remuneration Committee, payment of performance-based remuneration for members of the Board of Directors who perform their duties within the scope of employment relationship may be made as per the approval of the Supervisory Board and the subsequent decision of the Board of Directors. If no Remuneration Committee is appointed, decision regarding members of the Board of Directors who perform their duties within the scope of employment relationship shall be made by the Board of Directors after approval of the Supervisory Board. The Board of Directors may not adopt decisions more lenient towards employees than the decision adopted by the Supervisory Board. The Board of Directors may confirm such decisions by making no changes to it or may adopt decisions involving less payout than approved by the Supervisory Board.

Publications regarding remunerations, data disclosure to the Central Bank of Hungary.

The Remuneration Policy of the Integration Bank Group shall be available to all employees of the Member Bank. Member Bank shall be responsible for the publication thereof on its own electronic platform (Intranet) or any other platform customarily used by Member Bank.

The Group publishes its Remuneration Policy annually, and shall perform the Magyar Nemzeti Bank data disclosure regarding basic- and performance-based remunerations in line with said Remuneration Policy, as per the processes and task allocations set forth by the Group's Publication Policy and the Integration's Data Disclosure Policy. Based on the above internal policies, Member Bank shall disclose data to the lead Member Bank and shall ensure that such data are true and correct.

Laying down the principles of Remuneration Policy

MTB Zrt.'s Supervisory Board

- Approval and review of the Remuneration Policy shall be the responsibility of the Supervisory Board.
- Performance evaluation criteria used by the Compliance Department shall be approved by the Supervisory Board in line with the principles laid down in the Remuneration Policy.

MTB Zrt.'s Board of Directors shall be responsible for the issuance and implementation of the Remuneration Policy.

Review of the Remuneration Policy

The Group Remuneration Policy shall be reviewed annually, and it shall be issued as a policy with direct effect. Involvement of MTB Zrt.'s controlling officers by MTB Zrt.'s HR Directorate in laying down the principles and implementation of the Remuneration Policy shall be ensured by the annual review process, wherein they comment the rules and processes of remuneration. Commenting will be open to some Cooperative Credit Institute's experts, too.

Within the review process of the Remuneration Policy, the Compliance Directorate shall annually analyze the impacts of the Remuneration Policy to the institute's compliance with the legislation, policies, internal policies and the corporate risk culture. Furthermore, it shall report any identified compliance risk and deviations from the requirements to members of the management- and supervisory boards.

In the Integration, the compliance check of implementation of the Remuneration Policy shall be coordinated by the Integration Organization.

The compliance officer's report on the compliance check shall be discussed by the Member Bank Takarékbank's Board of Directors, Supervisory Board, Audit Committee and Remuneration Committee, and if necessary, they present their suggestions to amend the Remuneration Policy.

MTB Zrt.'s compliance function shall verify compliance with the regulations, policies, procedures and internal rules, central or group-level provisions.

MTB Zrt.'s compliance officer shall ensure that the remuneration policies of the group as a whole and of each member are consistent and harmonized, including identification processes and adequate implementation on a consolidated, sub-consolidated and individual basis.

7.2. Remuneration Statement for the Year 2019

1/ Members of the Management

Effective date

The directly applicable Remuneration Policy No. 5/2019 shall take effect on 1 January 2019.

The Policy's review was approved by MTB Magyar Takarékszövetkezeti Bank Zrt.'s Supervisory Board by way of Supervisory Board decision No. FB-3/12/2019, by its Board of Directors by way of Board of Directors' decision No. IG-3/12/2019, by its Remuneration Committee by way of Remuneration Committee decision No. JavB-1/2/2019, by its Risk Management Committee by way of Risk Management Committee decision No. KkB-1/4/2019 on 09 April 2019.

The Remuneration Policy took effect as directly applicable regulations under No. 59 for Co-Operative Credit Institutions and Takarékbank Group on 1 January 2019.

The Remuneration Policy had to be discussed and approved by the Supervisory Boards of Cooperative Credit Institutions, including TakaréK Jelzálogbank Nyrt. Considering that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementing regulation was necessary. Implementation of the "KM" Annexes to the Remuneration Policy was approved by the Supervisory Board of TakaréK Jelzálogbank Nyrt. by way of decision No. 22/2019. (5 June).

2/ Officers

Members of the Company's Board of Directors and Supervisory Board received the remuneration established during the 2018 annual shareholders' meeting, the amount of which has been unchanged since 2007.

Statement of Responsible Corporate Governance on Compliance with the Recommendations on Responsible Corporate Governance

As part of the Responsible Corporate Governance Report of TakaréK Jelzálogbank Nyilvánosan Működő Részvénytársaság (registered seat: H-1082 Budapest, Üllői út 48.; Company register No: 01-10-043638; hereinafter: „the Company”) represents by submission of the following questionnaire on the extent the Company applied the recommendations set out in the specific points of the Responsible Corporate Governance Suggestions issued by Budapesti Értéktőzsde Zrt. (Budapest Stock Exchange).

Level of compliance with the Suggestions

The Company shall indicate whether or not it applies the given recommendation. For negative answers, the Company shall provide information about the reasons the recommendation is not followed.

1.1.1. Within the Company, an organizational unit engaged in investors’ account management is operating or an individual is appointed to maintain relations with investors.

Yes No

Explanation:

1.1.2. The Company’s articles of association is available on the Company’s website.

Yes No

Explanation:

1.1.4. If the Company’s articles of association allows shareholders to exercise their rights while absent, the Company has published the methods and conditions of the same on its website, including the necessary documents.

Yes No

Explanation:

1.2.1. The Company has published a summarizing documents on its website regarding the rules of conduct of general assemblies and exercising shareholders’ rights.

Yes No

Explanation: The Company provides the details of the rules of conducting general assemblies and exercising shareholders’ rights in the information bulletin about the convention of the general assembly, which bulletin is always published on its website.

1.2.2. The Company published the day of establishment of the scope of individuals entitled to participate in the given Company event (cutoff date) by indicating the exact date. Furthermore, the Company published the date of the last day of trading of shares entitling invitees to participate in the Company event.

Yes No

Explanation:

1.2.3. The Company convened its general assembly in a way that allowed for the participation of the largest number of shareholders possible.

Yes No

Explanation:

1.2.6. The Company did not hinder shareholders to send separate representatives for each safekeeping account regarding any general assembly.

Yes No

Explanation:

1.2.7. For proposals regarding each agenda item, in addition to the decision proposed by the Board of Directors, the opinion of the Supervisory Board was also available for shareholders.

Yes No

Explanation:

1.3.3. The Company did not hinder participant shareholders' rights to receive information, to make comments or motions, and the Company did not condition these to any circumstance or requirement, except for measures taken for the due and intended conduct of the general assembly.

Yes No

Explanation:

1.3.4. The Company ensured compliance with the principles of notification and publication under the stock exchange rules by answering questions arising at the general assembly.

Yes No

Explanation:

1.3.5. The Company published on its website the answers to questions arising at the general assembly that could not be adequately answered by the representatives of the Company's bodies or the auditors present at the meeting within three business days, or published its notification regarding the reasons of abstention from answering.

Yes No

Explanation: In 2019, no such questions arose.

1.3.7. The Chairman of the general assembly ordered a recess or proposed suspension of the general assembly, if, regarding the agenda items, new motions or proposals were received, so that shareholders did not have opportunity to familiarize with such motions or proposals in advance.

Yes No

Explanation: In 2019, no such motions or proposals were submitted.

1.3.8.1. The Chairman of the general assembly did not apply joint voting procedures for decisions in connection with appointing or recalling members of the Supervisory Board.

Yes No

Explanation:

1.3.8.2. For members of the Supervisory Board appointed by shareholders' support, the Company provided information regarding the person of the supporting shareholder(s).

Yes No

Explanation:

1.3.9. Prior to discussing agenda items regarding the amendment of the articles of association, the general assembly adopted a separate decision whether the meeting intends to decide regarding each clause of the articles of association separately or by joint decisions, grouping the cases by certain criteria.

Yes No

Explanation: The general meeting always decides about amendments of the articles of association in a joint decision, irrespective of the number of clauses the amendment will affect. The proposal associated with the agenda item details the clauses affected by the amendment and the content of the amendment.

1.3.10. The Company published the Minutes of the general assembly containing the decisions, the details of the decision proposals and/or any significant questions and answers regarding such proposals within 30 days of the general assembly.

Yes No

Explanation:

1.5.1.1. The Directorate/Board of Directors and/or a committee set up out of the members of the Directorate/Board of Directors laid down guidelines and rules regarding the appraisal and remuneration of the work performed by the Directorate/Board of Directors, the Supervisory Board and the Management.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations. These regulations are compulsory to all Cooperative Credit Institutions, including TakaréK Jelzálogbank Nyrt. The Board of Directors must approve its implementation.

1.5.1.2. During the establishment of the performance-based remuneration of members of the Management, the members' responsibilities and the extent of their liabilities were considered, along with the extent the Company achieved its goals and the Company's economic-financial situation.

Yes No

Explanation:

1.5.1.3. Remuneration guidelines established by the Directorate/Board of Directors, and/or the committee set up from the members of the Directorate/Board of Directors were reviewed by the Supervisory Board.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations. The regulations are compulsory to all Cooperative Credit Institutions, TakaréK Jelzálogbank Nyrt. included. The Supervisory Board approved implementation.

1.5.1.4. The principles of remuneration (and significant amendments thereof) of members of the Directorate/Board of Directors and the Supervisory Board were approved by the general assembly in a separate agenda item.

Yes No

Explanation:

1.5.2.1. The Board of Directors is responsible for the appraisal of the Management's performance and for the determination of their remuneration.

Yes No

Explanation:

1.5.2.2. Limits and changes in such limits of extra remunerations payable for members of the Management were approved by the general assembly in a separate agenda item.

Yes No

Explanation: In 2019, no such proposal was submitted.

1.5.3.1. The general assembly approved the principles of share-based remuneration policies.

Yes No

Explanation: In 2019, no such proposal was submitted.

1.5.3.2. Shareholders were informed regarding the details of share-based remuneration policies prior to the general assembly (at least to the extent under Clause 1.5.3).

Yes No

Explanation: In 2019, no such proposal was submitted.

1.5.4. The Company set up its remuneration system in a way that it doesn't only incent short-term maximalization of share prices.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations. The regulations are compulsory to all Cooperative Credit Institutions, TakaréK Jelzálogbank Nyrt. included.

1.5.5. For members of the Supervisory Board, a fixed-amount remuneration system is effective, and it contains no remuneration elements linked to share prices.

Yes No

Explanation:

1.5.6. The Company prepared an information bulletin for owners ("Remuneration Statement") containing the remuneration principles of members of the Directorate/Board of Directors, the Supervisory Board and the Management. Said information bulletin contains items and details required by the binding rules of the trade and was submitted to the general assembly. In this remuneration statement, they presented the remuneration of the members of the Directorate/Board of Directors and the Supervisory Board, along with guidelines they base the appraisal of their performance on and establish their remuneration. This information includes the publication of information pertaining to the board-level remuneration of the Directorate/Board of Directors and the Supervisory Board, elaborating on the fixed- and variable elements, extra benefits, and the principles of the remuneration system, including the changes of the latter compared to the previous fiscal year.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations. The regulations are compulsory to all Cooperative Credit Institutions, TakaréK Jelzálogbank Nyrt. included. Members of the Board of Directors and the Supervisory Board receive a fixed remuneration, subject to the decision of the general assembly.

1.6.1.1. The Company's publication guidelines cover possible electronic- and online publication procedures.

Yes No

Explanation:

1.6.1.2. The Company sets up its website by considering the criteria of publication and information of shareholders.

Yes No

Explanation:

1.6.2.1. The Company has an internal set of rules covering publications and handling information under Clause 1.6.2 of the Recommendations.

Yes No

Explanation:

1.6.2.2. The Company's internal rules also cover the classification of significant incidents in terms of publications.

Yes No

Explanation:

1.6.2.3. The Directorate/Board of Directors assessed the efficiency of publication processes.

Yes No

Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.2.4. The Company published the result of the review of the publication processes.

Yes No

Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.3. The company published its corporate events calendar.

Yes No

Explanation:

1.6.4. The public was informed about the company's corporate strategy, its business ethics and its policies regarding other stakeholders.

Yes No

Explanation:

1.6.5. In the annual report or on the website the company has disclosed information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes No

Explanation:

1.6.6. The company has published the appropriate information on the work of the members of the Managing Body, the Supervisory Board and the executive management, the evaluation of the said work and the changes of the current year.

Yes No

Explanation:

1.6.7.1. The company has published its Remuneration Principles according to the recommendations defined in point 1.5.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations. The regulations are compulsory to all Cooperative Credit Institutions, TakaréK Jelzálogbank Nyrt. included.

1.6.7.2. The company has published its Remuneration Statement according to the recommendations defined in point 1.5.

Yes No

Explanation: The Remuneration Policy is determined by the Board of Directors of MTB Zrt, as Business Management Organisation of the Integration, and issued in the form of directly applicable regulations.

1.6.8. The company disclosed its risk management guidelines, and provided information on the system of internal audits, as well as information about major risks and relevant management principles.

Yes No

Explanation:

1.6.9.1. The company disclosed its guidelines governing insiders' trading in the company's securities.

Yes No

Explanation:

1.6.9.2. The company published in the annual report or otherwise ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes No

Explanation:

1.6.10. The company disclosed any relationship between members of the Managing Body, the Supervisory Board and the executive management with a third party, which might have an influence on the operations of the company.

Yes No

Explanation: There were no such cases in 2019.

2.1.1. The company's articles of association contains unambiguous provisions regarding the duties and competences of the General Meeting and the Board of Directors.

Yes No

Explanation:

2.2.1. The Managing Body regulates the rules of procedure defining all procedures and protocols for the preparation and holding of meetings and the tasks relevant to adopted resolutions, as well as other matters related to the operation of the Managing Body.

Yes No

Explanation:

2.2.2. The company disclosed the procedure for nominating members of the Managing Body and the remuneration principles.

Yes No

Explanation:

2.3.1. The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation, competence and duties, as well as the administrative procedures and processes which the Supervisory Board follows.

Yes No

Explanation:

2.4.1.1. The Managing Body and the Supervisory Board held meetings regularly, at times designated in advance.

Yes No

Explanation:

2.4.1.2. The rules of procedure of the Managing Body and the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes No

Explanation:

2.4.2.1. Board members had access to the proposals of a given meeting at least five days prior to the board meeting.

Yes No

Explanation:

2.4.2.2. The company ensured the orderly course of meetings and that minutes were recorded of the meetings, and the orderly management of the documentation and resolutions of the Managing Body and the Supervisory Board.

Yes No

Explanation:

2.4.3. The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.

Yes No

Explanation:

2.5.1. The nomination and election of the members of the Managing Body and the Supervisory Board took place in a transparent way, information on candidates was made public in due time prior to the General Meeting.

Yes No

Explanation:

2.5.2. The composition of boards and the number of members complies with the principles specified in point 2.5.2 of the Recommendations.

Yes No

Explanation:

2.5.3. The company ensured that newly elected board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members.

Yes No

Explanation:

2.6.1. At regular intervals (in connection with the preparation of the CG Report) the Board of Directors/Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes No

Explanation:

2.6.2. The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the management's work.

Yes No

Explanation:

2.6.3. The company disclosed on its website the guidelines on the independence of the Board of Directors/Supervisory Board, as well as the criteria applied for assessing independence.

Yes No

Explanation: The company has not disclosed a single document on the independence of the members of the Board of Directors and the Supervisory Board, but the rules of procedures of both the Board of Directors and the Supervisory Board includes the conflict-of-interest and the independence criteria in connection to its members. Both rules of procedures are disclosed on the website of the company

2.6.4. The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the five years prior to his nomination, not including the cases providing for employee involvement.

Yes No

Explanation:

2.7.1. Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a business or personal relationship to them) had such a significant personal stake relevant to a transaction of the company (or the company's subsidiary) that would make them not independent.

Yes No

Explanation:

2.7.2. Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted and approved according to general rules of practice of the company, but with stricter transparency rules in place.

Yes No

Explanation:

2.7.3. Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes No

Explanation:

2.7.4. The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitors compliance with those guidelines.

Yes No

Explanation:

2.8.1. The company created an independent Internal Audit function which reports to the Audit Committee/Supervisory Board.

Yes No

Explanation:

2.8.2. The Internal Audit has unlimited access to all information and documents necessary for the inspections.

Yes No

Explanation:

2.8.3. Shareholders were informed of the operation of the Internal Safeguards' system.

Yes No

Explanation:

2.8.4. The company has a compliance function.

Yes No

Explanation:

2.8.5.1. The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes No

Explanation:

2.8.5.2. The appropriate body of the company and the General Meeting received information on the efficiency of risk management procedures.

Yes No

Explanation:

2.8.6. The Managing Body developed the risk management policy appropriate for the industrial and corporate peculiarities with the cooperation of the relevant fields.

Yes No

Explanation:

2.8.7. The Managing Body formulated the principles regarding the system of internal audits ensuring the management and control of risks relevant to the company's business activities, as well as achieving the performance and profit goals set by the company.

Yes No

Explanation:

2.8.8. Functions of the internal audit systems have reported at least once to the eligible body on the operation of internal audit mechanisms and corporate governance functions.

Yes No

Explanation:

2.9.2. The Managing Body invited the company's auditor to participate in the meetings debating the financial report with consultative powers.

Yes No

Explanation:

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No).

1.1.3. The company's articles of association render possible that the shareholder practise his right to vote even when absent.

Yes No

Explanation:

1.2.4. The company has set the time and place of General Meetings proposed by shareholders with consideration to the shareholders' proposal.

Yes No

Explanation: There was no Shareholders' Meeting initiated by shareholders in 2019.

1.2.5. The voting procedures applied by the company ensure the unambiguous, clear and fast declaration of the results, and in case of electronic vote, the validity and reliability of it.

Yes No

Explanation:

1.3.1.1. The Managing Body and the Supervisory Board were represented at the General Meeting.

Yes No

Explanation:

1.3.1.2. The chairman of the General Meeting provided adequate information on the possible absence of the Management Body or the Supervisory Board before discussing the agenda in detail.

Yes No

Explanation:

1.3.2.1. The company' articles of association do not prevent that at the initiation of the chairman of the Managing Body of the company, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda, if they assume that the presence and contribution of the given party is necessary, or it facilitates the information of shareholders, the decision-making process of the general meetings.

Yes No

Explanation:

1.3.2.2. The company' articles of association do not prevent that at the initiation of the company's shareholders requesting the amendment of the agenda, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda.

Yes No

Explanation:

1.3.6. The company's Annual Report complying with the Accounting Act includes a short, straightforward and illustrative summary for the shareholders, containing the important information relevant to the annual operation of the company.

Yes No

Explanation:

1.4.1. According to point 1.4.1., the dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.

Yes No

Explanation: The Company did not pay dividend in 2019.

1.6.11. In compliance with the provisions of point 1.6.11, the company also prepared and released its disclosures in English.

Yes No

Explanation:

1.6.12. The company informed its investors regularly, but at least on a quarterly basis, on its operations, financial situation and the assets and liabilities of the company.

Yes No

Explanation: In compliance with the provisions of the Credit Institutions Act, the company releases semi-annual reports.

2.9.1. The company regulates the internal procedures to be followed when employing an external advisor or an outsourced service of theirs.

Yes No

Explanation:



PROPOSAL
TO AGENDA ITEM NO. 8 AGENDA ITEM NO. 1.



AMENDMENT OF THE ARTICLES OF ASSOCIATION

Proposal:

1. The amendment of the articles of association of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (hereinafter referred to as: “Company”; the articles of association hereinafter referred to as: “Articles of Association”) is an exclusive power of the general meeting pursuant to Act V of 2013 on the Civil Code (“Civil Code”) and Section 12.3(a) of the Articles of Association.

2. Amendment of the Articles of Association consists partially of technical amendments, with regard to the fact that, due to the amendment of Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter referred to as: Integration Act) the name of the “Central Bank” changed to “Integrational Business Management Organization”, the financial institution acting in the competence of the integrational business management organization changed its name to MTB Magyar Takarékszövetkezeti Bank Zártkörűen Működő Részvénytársaság in 2019, furthermore, the address of the Company’s website also changes as of 1 April 2020. In connection with the technical amendments the proposal does not contain a specific justification.

The proposal contains specific justification for the substantive amendments of the Articles of Association that affect the competence of the General Meeting, the Board of Directors and the Supervisory Board.

The proposal describes the amendments of the Articles of Association in detail below:

“PREAMBLE

The Integration Organization, **MTB** Magyar Takarékszövetkezeti Bank Zrt. and the cooperative credit institutions determined in the resolution of the Central Bank of Hungary (hereinafter: Supervisory Authority or MNB), including the Company, are subject to consolidated supervision.

11. The General Meeting

11.3. With the exceptions specified by the legislation or this Articles of Association, the General Meeting shall be convened by the Board of Directors – at the place specified in the invitation sent by the Board of Directors or, in the absence of the Board of Directors’ decision relating to the place, at the registered seat of the Company – if it deems necessary with regard to the operation of the Company, or if it is stipulated by the Articles of Association, or a legislative provision. Pursuant to the Integration Act, the Board of Directors shall convene the General Meeting of the Company – as soon as possible – if the Board of Directors of the Integration Organization or the Board of Directors of the ~~Central Bank~~ **Integrational Business Management Organization** initiated holding a General Meeting in respect of electing the senior officers.

11.4. The General Meeting shall be convened at least once a year. The ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be notified of the General Meeting in advance, simultaneously with the publication of the invitation. The invitation, and the proposals and related materials – if any – regarding the agenda shall be attached to the notification. The management of the Integration Organization

may request the Company, where appropriate, within 5 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization, which do not contain a proposal. The representative of the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization may attend the General Meeting of the Company in advisory capacity.

12. The scope of competence and decision-making process of the General Meeting, the exercise of right to vote

12.3. The exclusive scope of competence of the General Meeting include:

v) ~~adoption of the guidelines on remuneration, which shall be published on the official website of the Company within 30 days after adoption;~~

Reasoning: The Integrational Business Management Organization shall issue a group-level Remuneration Policy in the form of a policy with direct effect, which shall be applied by all members of the Integration. For this reason, the General Meeting of the Company may not decide on the adoption of separate guidelines on remuneration.

12.5. If under the Integration Act or the Articles of Association of the Integrational Organization the consent or approval of the Integration Organization or the ~~Central Bank~~ **Integrational Business Management Organization** is necessary for the making of any General Meeting decision, the management of the Company shall take the necessary steps to obtain the necessary authorizations.

13. Officers and work of the General Meeting

13.3. The minutes shall be signed by the registrar of minutes and the presiding chairman of the General Meeting, and shall be authenticated by the shareholder in attendance and elected to do so. The minutes drawn up of the General Meeting shall be sent to the ~~Central Bank~~ **Integrational Business Management Organization**, the Integration Organization and the Supervisory Authority within 15 (fifteen) days of the General Meeting.

14. The Board of Directors

14.5. Board Members – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization**, other legal persons or public limited-liability companies subject to consolidated supervision with the Company – may not acquire shares in other business associations the main activity of which is the same as that of the Company, furthermore – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization** and other legal persons subject to consolidated supervision with the Company –, Members may not hold a senior officer position in a business association the main activity of which is the same as that of the Company, except with the consent of the General Meeting. Board Members and their relatives—with the exception of those exempted by law—may not enter into any transaction in their own name or for their own benefit, which falls within the Company's scope of main activity. The senior officer of the Company may, without restrictions, become a senior officer in any legal person—subject to consolidated supervision with the Company—the main activity of which is the same economic activity as that of the Company. If any senior officer of the Company accepts a new senior officer mandate, then such senior officer shall notify the Company of this fact within 15 days of accepting the office.

14.10. The Board of Directors shall conduct a meeting at least once every three months, however the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall convene the Board of Directors upon the request of two Members, or in cases provided for in the legislation. The sessions shall be convened by the Chairman or the Board Member assigned by the Chairman, via an invitation forwarded at least 5 working days before the date of the session. The Chairman of the Board of Directors shall notify the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** of the session of the Board of Directors in advance, simultaneously with sending the invitations to the members, but at least 5 (five) working days before the session, by sending the invitation and the attached materials specified herein. The authorized representatives of these organizations may participate in the session of the Board of Directors in advisory capacity. The invitation shall include the agenda of the session, and the proposal and the related materials – if any – regarding all agenda shall be attached to the invitation. The management of the Integration Organization may request the Company, where appropriate, within 3 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization. With regards to issues not included in the agenda, the Meeting shall be entitled to take a decision only when all Members, or the representative of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization is present at the Meeting—or have the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The Board of Directors cannot adopt any valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.

14.13. The minutes shall be signed by the Chairman of the Meeting, two further Board Members present, and the registrar of minutes. The minutes shall be sent to all Board Members, the Chairman of the Supervisory Board, the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** within 15 (fifteen) days after the meeting, irrespective of whether they have attended the meeting or not.

14.15. The Board of Directors may only adopt valid resolutions outside of the Meeting—that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways— if the votes of more than half of the Board Members are recorded in a private document of probative value, which is forwarded to the Company’s registered seat within 2 (two) working days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Board Members.

From what was set forth in point 14.10, the provisions concerning the prior notification of the Integration Organization and ~~Central Bank~~ **Integrational Business Management Organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization. The Board of Directors cannot adopt any valid resolution if the above obligations are breached.

14.18. The Board of Directors shall

.....

- forward within 15 (fifteen) days from the date of entry into force each of its regulations which are stipulated in the regulations issued by the Integration Organization or the ~~Central Bank~~ **Integrational Business Management Organization**.

14.19.4. Competences relating to ~~Group governance~~, Company formation, and investments:

Reasoning: The Company no longer fulfils a group governance function, that is why the title of the point needed to be changed.

14.19.7. Further competences:

a) executing the group-level Remuneration Policy;

Reasoning: The group-level Remuneration Policy issued by the Integrational Business Management Organization assigns the execution thereof to the competence of the Board of Directors, therefore, a new subpoint shall be added to the point describing the further competences of the Board of Directors.

15. The Supervisory Board

15.9. The meetings shall be convened by the Chairman via invitation in electronic message or documentary form. The ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with sending the invitation to the Members of the Supervisory Board, but at least 5 (five) working days prior to the meeting, by sending them the invitation and the attached materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached and sent by e-mail or in printed form to the Members of the Supervisory Board, the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization. With regards to issues not included in the agenda, the Meeting shall be entitled to take a decision only when all Members, or the representative of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization is present at the Meeting—or have the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The representatives of ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be entitled to attend the Meeting of the Supervisory Board in advisory capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

15.10. The quorum of the Supervisory Board shall be the presence of two thirds of its members, but at least 3 (three) members. The Supervisory Board adopts its resolutions by simple majority. The Supervisory Board does not have a quorum if the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** was not invited to the meeting of the Supervisory Board 5 working days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.

15.14. The Supervisory Board may only adopt valid resolutions outside of the Meeting—that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or

similar ways— if the votes of more than half of the Supervisory Board Members are recorded in a private document of probative value, which is forwarded to the Company’s registered seat within two (2) working days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Supervisory Board Members.

From what was set forth in point 15.9, the provisions concerning the prior notification of the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

15.16. The Supervisory Board shall monitor the management of the Company. Consequently, it may ask for reports or clarification from the Members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the Chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. The Supervisory Board shall review the Company’s report **prepared in accordance with the International Financial Reporting Standards (“IFRS”)** ~~in accordance with the Act on Accounting~~, the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The Chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board’s written report, the General Meeting may not adopt a valid resolution on ~~the report prepared in accordance with the Act on Accounting~~ **the report prepared in accordance with the IFRS** and the utilization of results after tax.

15.17. The duties of the Supervisory Board shall include – in addition to point 15.16 – particularly

d) evaluation of ~~the financial report prepared in accordance with the Act on Accounting~~ **the financial report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** and monitoring of the auditing process;

Reasoning: With effect from the year 2019, the Company shall prepare its annual report according to the IFRS, the amendment is therefore necessary.

l) adoption and review of the principles of ~~the group-level remuneration~~ **Remuneration policy Policy**;

m) **decision on the remuneration of the Members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).**

n) supervision of the remuneration of managers in charge of internal audits, compliance and risk management.

Reasoning: The adoption of the group-level Remuneration Policy issued by the Integrational Business Management Organization, the decision on the remuneration of the Members of the Board of Directors who perform their duties within the scope of employment relationship, and the supervision of the remuneration of managers in charge of internal audit, compliance and risk management were assigned to the competence of the Supervisory Board, the these competences therefore need to be added to the Articles of Association.

15.18. Within 10 (ten) days after the Supervisory Board's meeting, the Chairman of the Supervisory Board shall submit to the Supervisory Authority – and, within 15 (fifteen) days to the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** – the minutes, proposals and reports pertaining to the agenda item discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the management of the Company.

16. The Audit Committee

16.2. The Audit Committee shall support the Supervisory Board in the monitoring of the financial reporting system of the Company, in the selection of and the cooperation with the auditor. Accordingly, the scope of competence of the Audit Committee shall include:

d) evaluation of the ~~financial report prepared in accordance with the Act on Accounting~~ **financial report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** and monitoring of the auditing process;

Reasoning: With effect from the year 2019, the Company shall prepare its annual report according to the IFRS, the amendment is therefore necessary.

17. Permanent Auditor

17.1. The Company has a permanent auditor. The permanent auditor shall be selected by the General Meeting – in order to ensure the lawful operation of the Company and supervise the management – for a maximum period of 5 (five) years from the List of Auditors disclosed by the ~~Central Bank~~ **Integrational Business Management Organization**. The term of the permanent auditor's mandate cannot be shorter than the period lasting from the election of the permanent auditor by the General Meeting to the acceptance of the following report by the General Meeting.

17.6. The permanent auditor shall be responsible for conducting the permanent audit in accordance with the rules, and on that basis adopting a position in an independent auditor's report on whether the Company's ~~financial report prepared in accordance with the Accounting Act~~ **financial report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** complies with the statutory requirements, and provides a true and fair view of the Company's assets, financial situation and income, profit and loss.

Reasoning: With effect from the year 2019, the Company shall prepare its annual report according to the IFRS, the amendment is therefore necessary.

17.7. The permanent auditor shall be invited to the General Meeting of the Company at which the Company's ~~financial report prepared in accordance with the Accounting Act~~ **financial report prepared in accordance with the International Financial Reporting Standards ("IFRS")** is discussed. The permanent auditor shall attend this meeting, however, his/her absence does not prevent the holding of the meeting.

Reasoning: With effect from the year 2019, the Company shall prepare its annual report according to the IFRS, the amendment is therefore necessary.

17.8. If the permanent auditor notices that the financial report of the Company does not comply with the legal requirements or fails to provide a true and fair view of the assets, financial situation, income, as well as the profit and loss of the Company, beyond the legal consequences specified by the law, the permanent auditor shall notify the Audit Committee, the Supervisory Authority, the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** of such findings no later than within 3 (three) working days after detection.

17.10. The permanent auditor shall record his/her findings relating to the provisions of section 263 (1) of Act CXII of 1996 on Credit Institutions and Financial Enterprises in a separate, additional report, and send it to the Company's Board of Directors, Executive Director, the Chairman of the Supervisory Board, the Supervisory Authority as well as the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization at the latest until 31 May of the year following the relevant year.

22. Legal disputes

The Company shall be entitled to apply to a court against the decision or order of the Board of Directors of the ~~Central Bank~~ **Integrational Business Management Organization** pursuant to the Integration Act, in accordance with the rules on the judicial review of company decisions. Application to court does not have a suspensive effect; therefore, the order shall be implemented irrespectively, within the specified deadline."

23. Notices

The Company shall publish its notices on its own website (~~www.takarek.hu~~ **www.takarekjzb.hu**), on the website operated by the Central Bank of Hungary (www.kozzetetelek.hu), and the website of the Budapest Stock Exchange. In the cases specified in the law or this Articles of Association, the Company shall publish some of its notices in the Company Gazette as well. The publication of the notices on the website of the Company shall replace all other disclosure obligations where it is permitted by the legislation, and other relevant regulations."

3. Given that the Articles of Association contains amendments that affect the competence of the Board of Directors, falling within the scope of point e) of section 23 of Act CXII of 1996 on Credit Institutions and Financial Enterprises, the entry into force of the Articles of Association is subject to the authorization of the Central Bank of Hungary. Therefore, the Board of Directors of the Company proposes that the amendment of the Articles of Association enter into force on the day of receipt of the authorization of the Central Bank of Hungary.

The Supervisory Board agrees with the proposal of the Board of Directors.

Proposed resolution:

1. *The General Meeting (hereinafter: “General Meeting”) of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (hereinafter: “Company”) adopts the amendment of the Company’s Articles of Association as below, provided that the Articles of Association consolidated with the amendments shall enter into force on the day of receipt of the authorization of the Central Bank of Hungary.*

“PREAMBLE

*The Integration Organization, **MTB** Magyar Takarékszövetkezeti Bank Zrt. and the cooperative credit institutions determined in the resolution of the Central Bank of Hungary (hereinafter: Supervisory Authority or MNB), including the Company, are subject to consolidated supervision.*

11. The General Meeting

*11.3. With the exceptions specified by the legislation or this Articles of Association, the General Meeting shall be convened by the Board of Directors – at the place specified in the invitation sent by the Board of Directors or, in the absence of the Board of Directors’ decision relating to the place, at the registered seat of the Company – if it deems necessary with regard to the operation of the Company, or if it is stipulated by the Articles of Association, or a legislative provision. Pursuant to the Integration Act, the Board of Directors shall convene the General Meeting of the Company – as soon as possible – if the Board of Directors of the Integration Organization or the Board of Directors of the ~~Central Bank~~ **Integrational Business Management Organization** initiated holding a General Meeting in respect of electing the senior officers.*

*11.4. The General Meeting shall be convened at least once a year. The ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be notified of the General Meeting in advance, simultaneously with the publication of the invitation. The invitation, and the proposals and related materials – if any – regarding the agenda shall be attached to the notification. The management of the Integration Organization may request the Company, where appropriate, within 5 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization, which do not contain a proposal. The representative of the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization may attend the General Meeting of the Company in advisory capacity.*

12. The scope of competence and decision-making process of the General Meeting, the exercise of right to vote

12.3. The exclusive scope of competence of the General Meeting include:

- v) ~~adoption of the guidelines on remuneration, which shall be published on the official website of the Company within 30 days after adoption;~~*

12.5. *If under the Integration Act or the Articles of Association of the Integrational Organization the consent or approval of the Integration Organization or the ~~Central Bank~~ **Integrational Business Management Organization** is necessary for the making of any General Meeting decision, the management of the Company shall take the necessary steps to obtain the necessary authorizations.*

13. Officers and work of the General Meeting

13.3. *The minutes shall be signed by the registrar of minutes and the presiding chairman of the General Meeting, and shall be authenticated by the shareholder in attendance and elected to do so. The minutes drawn up of the General Meeting shall be sent to the ~~Central Bank~~ **Integrational Business Management Organization**, the Integration Organization and the Supervisory Authority within 15 (fifteen) days of the General Meeting.*

14. The Board of Directors

14.5. *Board Members – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization**, other legal persons or public limited-liability companies subject to consolidated supervision with the Company – may not acquire shares in other business associations the main activity of which is the same as that of the Company, furthermore – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization** and other legal persons subject to consolidated supervision with the Company –, Members may not hold a senior officer position in a business association the main activity of which is the same as that of the Company, except with the consent of the General Meeting. Board Members and their relatives— with the exception of those exempted by law—may not enter into any transaction in their own name or for their own benefit, which falls within the Company’s scope of main activity. The senior officer of the Company may, without restrictions, become a senior officer in any legal person—subject to consolidated supervision with the Company—the main activity of which is the same economic activity as that of the Company. If any senior officer of the Company accepts a new senior officer mandate, then such senior officer shall notify the Company of this fact within 15 days of accepting the office.*

14.10. *The Board of Directors shall conduct a meeting at least once every three months, however the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall convene the Board of Directors upon the request of two Members, or in cases provided for in the legislation. The sessions shall be convened by the Chairman or the Board Member assigned by the Chairman, via an invitation forwarded at least 5 working days before the date of the session. The Chairman of the Board of Directors shall notify the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** of the session of the Board of Directors in advance, simultaneously with sending the invitations to the members, but at least 5 (five) working days before the session, by sending the invitation and the attached materials specified herein. The authorized representatives of these organizations may participate in the session of the Board of Directors in advisory capacity. The invitation shall include the agenda of the session, and the proposal and the related materials – if any – regarding all agenda shall be attached to the invitation. The management of the Integration Organization may request the Company, where*

appropriate, within 3 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization. With regards to issues not included in the agenda, the Meeting shall be entitled to take a decision only when all Members, or the representative of the ~~Central-Bank~~ **Integrational Business Management Organization** or the Integration Organization is present at the Meeting—or have the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The Board of Directors cannot adopt any valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.

14.13. The minutes shall be signed by the Chairman of the Meeting, two further Board Members present, and the registrar of minutes. The minutes shall be sent to all Board Members, the Chairman of the Supervisory Board, the Integration Organization and the ~~Central-Bank~~ **Integrational Business Management Organization** within 15 (fifteen) days after the meeting, irrespective of whether they have attended the meeting or not.

14.15. The Board of Directors may only adopt valid resolutions outside of the Meeting—that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways— if the votes of more than half of the Board Members are recorded in a private document of probative value, which is forwarded to the Company's registered seat within 2 (two) working days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Board Members.

From what was set forth in point 14.10, the provisions concerning the prior notification of the Integration Organization and ~~Central-Bank~~ **Integrational Business Management Organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central-Bank~~ **Integrational Business Management Organization** or the Integration Organization. The Board of Directors cannot adopt any valid resolution if the above obligations are breached.

14.18. The Board of Directors shall

.....

- forward within 15 (fifteen) days from the date of entry into force each of its regulations which are stipulated in the regulations issued by the Integration Organization or the ~~Central-Bank~~ **Integrational Business Management Organization**.

14.19.4. Competences relating to ~~Group governance~~, Company formation, and investments:

14.19.7. Further competences:

a) executing the group-level Remuneration Policy;

15. **The Supervisory Board**

15.9. *The meetings shall be convened by the Chairman via invitation in electronic message or documentary form. The ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with sending the invitation to the Members of the Supervisory Board, but at least 5 (five) working days prior to the meeting, by sending them the invitation and the attached materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached and sent by e-mail or in printed form to the Members of the Supervisory Board, the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization. With regards to issues not included in the agenda, the Meeting shall be entitled to take a decision only when all Members, or the representative of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization is present at the Meeting—or have the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The representatives of ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be entitled to attend the Meeting of the Supervisory Board in advisory capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.*

15.10. *The quorum of the Supervisory Board shall be the presence of two thirds of its members, but at least 3 (three) members. The Supervisory Board adopts its resolutions by simple majority. The Supervisory Board does not have a quorum if the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** was not invited to the meeting of the Supervisory Board 5 working days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.*

15.14. *The Supervisory Board may only adopt valid resolutions outside of the Meeting—that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways— if the votes of more than half of the Supervisory Board Members are recorded in a private document of probative value, which is forwarded to the Company's registered seat within two (2) working days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Supervisory Board Members.*

*From what was set forth in point 15.9, the provisions concerning the prior notification of the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **Integrational Business Management Organization** or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.*

15.16. *The Supervisory Board shall monitor the management of the Company. Consequently, it may ask for reports or clarification from the Members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the*

Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the Chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. The Supervisory Board shall review the Company's report **prepared in accordance with the International Financial Reporting Standards ("IFRS")** ~~in accordance with the Act on Accounting,~~ the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The Chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board's written report, the General Meeting may not adopt a valid resolution on ~~the report prepared in accordance with the Act on Accounting~~ **the report prepared in accordance with the IFRS** and the utilization of results after tax.

15.17. The duties of the Supervisory Board shall include – in addition to point 15.16 – particularly

d) ~~evaluation of the financial report prepared in accordance with the Act on Accounting~~ **the financial report prepared in accordance with the International Financial Reporting Standards ("IFRS")** and monitoring of the auditing process;

l) ~~adoption and review of the principles of~~ **the group-level remuneration Remuneration policy Policy;**

m) ~~decision on the remuneration of the Members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).~~

n) ~~supervision of the remuneration of managers in charge of internal audits, compliance and risk management.~~

15.18. Within 10 (ten) days after the Supervisory Board's meeting, the Chairman of the Supervisory Board shall submit to the Supervisory Authority – and, within 15 (fifteen) days to the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** – the minutes, proposals and reports pertaining to the agenda item discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the management of the Company.

16. The Audit Committee

16.2. The Audit Committee shall support the Supervisory Board in the monitoring of the financial reporting system of the Company, in the selection of and the cooperation with the auditor. Accordingly, the scope of competence of the Audit Committee shall include:

d) ~~evaluation of the financial report prepared in accordance with the Act on Accounting~~ **financial report prepared in accordance with the International Financial Reporting Standards ("IFRS")** and monitoring of the auditing process;

17. **Permanent Auditor**

17.1. *The Company has a permanent auditor. The permanent auditor shall be selected by the General Meeting – in order to ensure the lawful operation of the Company and supervise the management – for a maximum period of 5 (five) years from the List of Auditors disclosed by the ~~Central Bank~~ **Integrational Business Management Organization**. The term of the permanent auditor’s mandate cannot be shorter than the period lasting from the election of the permanent auditor by the General Meeting to the acceptance of the following report by the General Meeting.*

17.6. *The permanent auditor shall be responsible for conducting the permanent audit in accordance with the rules, and on that basis adopting a position in an independent auditor’s report on whether the Company’s ~~financial report prepared in accordance with the Accounting Act~~ **financial report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** complies with the statutory requirements, and provides a true and fair view of the Company’s assets, financial situation and income, profit and loss.*

17.7. *The permanent auditor shall be invited to the General Meeting of the Company at which the Company’s ~~financial report prepared in accordance with the Accounting Act~~ **financial report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** is discussed. The permanent auditor shall attend this meeting, however, his/her absence does not prevent the holding of the meeting.*

17.8. *If the permanent auditor notices that the financial report of the Company does not comply with the legal requirements or fails to provide a true and fair view of the assets, financial situation, income, as well as the profit and loss of the Company, beyond the legal consequences specified by the law, the permanent auditor shall notify the Audit Committee, the Supervisory Authority, the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** of such findings no later than within 3 (three) working days after detection.*

17.10. *The permanent auditor shall record his/her findings relating to the provisions of section 263 (1) of Act CXII of 1996 on Credit Institutions and Financial Enterprises in a separate, additional report, and send it to the Company’s Board of Directors, Executive Director, the Chairman of the Supervisory Board, the Supervisory Authority as well as the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization at the latest until 31 May of the year following the relevant year.*

22. **Legal disputes**

*The Company shall be entitled to apply to a court against the decision or order of the Board of Directors of the ~~Central Bank~~ **Integrational Business Management Organization** pursuant to the Integration Act, in accordance with the rules on the judicial review of company decisions. Application to court does not have a suspensive effect, therefore, the decision or order shall be implemented irrespectively, within the specified deadline.*

23. Notices

*The Company shall publish its notices on its own website (~~www.takarek.hu~~ **www.takarekjb.hu**), on the website operated by the Central Bank of Hungary (www.kozzetetelek.hu), and the website of the Budapest Stock Exchange. In the cases specified in the law or this Articles of Association, the Company shall publish some of its notices in the Company Gazette as well. The publication of the notices on the website of the Company shall replace all other disclosure obligations where it is permitted by the legislation, and other relevant regulations.”*

2. *The General Meeting requests and authorizes the Board of Directors to submit this resolution and the Articles of Association consolidated with amendments to the Court of Registration within the statutory deadline.*

Takarék Mortgage Bank
Public Company Limited by Shares
Articles of association

Effective as of: 2020.

ARTICLES OF ASSOCIATION

PREAMBLE

Takarék Mortgage Bank Public Company Limited by Shares (hereinafter as ‘Company’), as a member of the Integration Organization of Cooperative Credit Institutions (hereinafter as ‘Integration Organization’), and as a shareholder of **MTB** Magyar Takarékszövetkezeti Bank Zrt., in accordance with the provisions of its operating license, operates as a cooperative credit institution as defined in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on Amendments to Certain Economy-related Legislation (hereinafter as ‘Integration Act’).

The Integration Organization, MTB Magyar Takarékszövetkezeti Bank Zrt. and the cooperative credit institutions determined in the resolution of the Central Bank of Hungary (hereinafter: Supervisory Authority or MNB), including the Company, are subject to consolidated supervision.

For issues not regulated in this Articles of Association, the provisions of the Integration Act, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter as Credit Institutions Act), Act CXX of 2001 on financial markets (hereinafter as Capital Market Act), Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter as Investment Act), Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (hereinafter as Mortgage Act) and Act V of 2013 on the Civil Code (hereinafter as Civil Code) shall apply.

THE CORPORATE NAME, PRINCIPAL ADDRESS AND ACTIVITIES OF THE COMPANY

1. The corporate name of the Company:

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság

Foreign corporate names of the Company:

in English: Takarék Mortgage Bank Co. Plc
in German: Takarék Hypothekenbank AG

The abbreviated corporate name of the Company: Takarék Jelzálogbank Nyrt.

2. The principal address of the Company:

H-1117 Budapest, Magyar Tudósok körútja 9. G épület

3. The form of the Company:

The Company is a public company limited by shares.

The Company, positioned among financial institutions, is a mortgage credit institution as a specialized credit institution.

4. The activities of the Company:

- 4.1. The Company pursues its financial service activities defined in Section 3 (1) of the Credit Institutions Act, and its ancillary financial service activities defined in Section 3 (2) of the Credit Institutions Act, and its activities defined in Section 7 (3) of the Credit Institutions Act in accordance with and in the framework of the provisions of the Credit Institutions Act, Investment Act, Mortgage Act and other legislation related to financial service activity, based on a license of the Supervisory Authority.
- 4.2. The activity (activities) of the Company that it performs under decision(s) no. 345/1998 of the Supervisory Authority in Hungarian Forints and in foreign currencies, are the following:

Main activity:

6492'08 Other credit granting

Within the above activities, the Company solely pursues the following activities as defined in Section 3 of Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, specifically:

- accepting repayable cash and cash equivalents from the public, not including the collection of deposits,
- granting of loans, with collateral secured by mortgage lien on real property in the area of Hungary and of an EEA member state,
- granting of loans without mortgage lien where demand guarantee is provided by the state,
- providing surety facilities and bank guarantees, as well as other forms of banker's obligations.

Other activities:

6499'08 Other financial service activities n.e.c., specifically:

- commercial activities with regard to interest rate swap deals, and swap deals to hedge the foreign exchange risk of the source of foreign currency thereof.

6619'08 Other activities auxiliary to financial services

5. Territory of operation:

The Company - within the limitations of the effective laws and applicable licenses - has the right to pursue its activities or certain components of its activities either in Hungary or abroad, and to establish branch offices, outlets or representations.

6. Duration:

The Company is established for an indefinite period. Apart from the year the Company was formed, the financial year of the Company shall be the same as the calendar year, with that

in the year of the formation, the financial year shall start on the day the formation of the Company is registered in the company registry.

THE REGISTERED CAPITAL, SHARES OF THE COMPANY, RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

7. Registered capital

- 7.1. The share capital of the Company is HUF 10,849,030,000, i.e. Ten Billion Eight Hundred Forty-nine Million Thirty Thousand Hungarian Forints, comprised solely of cash contributions paid to the Company.
- 7.2. The Company may also increase its share capital - except where share capital is increased through the distribution of new shares - if the nominal value of all of its shares previously issued had not yet been paid in full.
- 7.3. The General Meeting of the Company may authorize the Board of Directors in a resolution to increase the share capital. The authorization shall specify the highest amount (authorized share capital) by which the Board of Directors may increase the share capital of the Company in a period of up to 5 years determined in the resolution of the General Meeting. When deciding on the authorization to increase the share capital, the General Meeting shall also decide whether to exclude or limit the exercising of the priority subscription right defined in 7.5..

The authorization of the Board of Directors to increase the share capital also authorizes and obliges the Board of Directors to make the decisions related to the increase of the share capital which by law or according to the Articles of Association would otherwise fall within the authority of the General Meeting, and this includes amending the Articles of Association as necessary to increase the share capital.

- 7.4. When increasing the share capital, the General Meeting or the Board of Directors may contemporaneously decide that in the case of new shares to be issued or convertible bonds in the event of a conditional share capital increase may only be accepted by the person(s) designated in a resolution of the general meeting or of the Board of Directors (controlled capital increase).
- 7.5. When increasing the share capital of the Company in exchange for cash contributions, the shareholders of the Company (within that firstly the shareholders holding shares in the same series of shares as the shares distributed), then the owners of convertible bonds shall have subscription priority right in accordance with the conditions specified in the resolution of the General Meeting, or, where share capital is increased within the competence of the Board of Directors, in the resolution of the Board of Directors.

The Company shall notify the shareholders and the owners of convertible bonds via the notification channels determined in the Articles of Association of the possibility and method of exercising the subscription priority right for the receipt of shares, the nominal value and par value of such shares, as well as the commencement and closing date of the (15-day) period during which the subscription priority right may be exercised.

Upon a written proposal of the Board of Directors, the General Meeting may prohibit or limit the exercising of the priority subscription right. The proposal shall present

the reasons of the initiative to exclude the right to priority subscription, as well as the planned accounting par value of the shares. In the invitation convening the General Meeting, the Board of Directors shall mark the proposal for discussion in the agenda as part of the agenda item related to the discussion about the share capital increase, but prior to that item. The General Meeting may not adopt a valid resolution regarding the increase of the share capital until it has decided in the matter of prohibiting or limiting the exercising of the priority subscription right. The Board of Directors shall arrange for the resolution of the General Meeting to be announced via the notification channels determined in the Articles of Association at the same time as the resolution is submitted to the Companies Court.

8. Shares

- 8.1. The share capital of the Company comprises of 80,163,440, i.e. Eighty Million One Hundred Sixty-three Thousand Four Hundred Forty shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, and 2,832,686, i.e. Two Million Eight Hundred Thirty-two Thousand Six Hundred Eighty-six shares with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints each.
- 8.2. The composition of the share capital by class and type of shares:
 - 66,000,010, i.e. Sixty Million Ten class “A” ordinary shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, with a total nominal value of 6,600,001,000 HUF, i.e. Six Billion Six Hundred Million One Thousand Hungarian Forints,
 - 14,163,430, i.e. Fourteen Million One Hundred Sixty Three Thousand Four Hundred Thirty class “B” preference (dividend preference) shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, with a total nominal value of 1,416,343,000 HUF, i.e. One Billion Four Hundred Sixteen Million Three Hundred Forty-three Thousand Hungarian Forints, and a par value of 10,155,179,310 HUF, i.e. Ten Billion One Hundred Fifty-five Million One Hundred Seventy-nine Thousand Three Hundred Ten Hungarian Forints and
 - 2,832,686, i.e. Two Million Eight Hundred Thirty-two Thousand Six Hundred Eighty-six class “C” ordinary shares with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints each, with a total nominal value of 2,832,686,000 HUF, i.e. Two Billion Eight Hundred Thirty-two Million Six Hundred Eighty-six Thousand Hungarian Forints, and a par value of 20,310,358,620 HUF, i.e. Twenty Billion Three Hundred Ten Million Three Hundred Fifty-eight Thousand Six Hundred Twenty Hungarian Forints.
- 8.3. The shares of the Company are issued as dematerialized securities in compliance with the laws pertaining to securities.

9. The Transfer and Registration of Shares

- 9.1. The shares of the Company are freely transferable within the limitations of the applicable legislation and this Articles of Association, they may be acquired or transferred in a manner set forth in a specific law solely via a debit or a credit made to a securities account.

- 9.2. The Company maintains a stock-register in accordance with the effective laws, this Articles of Association and the relevant internal policy. The shareholders' ownership is certified by the entries made into the stock-register of the Company, therefore shareholders may only exercise their shareholders' rights against the Company once they have been entered into the stock-register. The stock-register shall be maintained by the Board of Directors or it may appoint a person (persons) determined in law to maintain the stock-register, in which case the fact of the appointment and the details relating to the appointed person must be disclosed.
- 9.3. The Company maintains the stock-register in accordance with the relevant provisions of Capital Market Act and the Civil Code.
- 9.4. The Board of Directors of the Company - or its representative as per the applicable laws - shall maintain a stock-register where at least the following data are provided of the shareholders:
- the names of the shareholders or their proxies, in the case of natural persons: the address of residence, mother's maiden name, citizenship; in the case of legal persons (e.g. business enterprises) and sole shareholder corporations: the principal address thereof;
 - where shares have more than one owners, the details in respect of the owners and their joint representative;
 - the number of shares held by a shareholder of each series of share, the ownership interest of each shareholder;
 - the international securities identification number, series and nominal value of the share;
 - the type of the share;
 - the date when the acquisition is recorded in the register of shareholders
 - the date of withdrawal and destruction (deletion) of the shares;
 - the reference number and the date of the decision of the Supervisory Authority in relation to the acquisition where it is necessary for acquisition.

As an annex of the stock-register, the Board of Directors or its representative set forth in the applicable law shall also maintain the data suitable for identifying the indirect ownership held in the Company, calculated according to Schedule No. 3 of the Credit Institutions Act, by owners of at least five percent. Any owner who holds or acquires at least a 5% or higher ownership interest in the Company shall notify the Company of the indirect ownership held by it in the Company and of the changes in such ownership, while simultaneously providing the identification data to the Company. The right to exercise the right to vote of any member not fulfilling this notification obligation shall be suspended by the Supervisory Authority until this obligation is fulfilled.

- 9.5. The shareholder shall be responsible for any and all damage caused to a person that results from untruthful information provided by it while requesting to be entered in the stock-register, or due to a failure to fulfil its obligation to inform set forth in clauses 9.6 and 9.7.
- 9.6. Shareholders registered in the stock-register of the Company shall notify the Board of Directors in writing within 30 days of any change in their data maintained in the stock-register.

- 9.7. If a shareholder's ownership has terminated due to a debit made to a securities account, the shareholder, or the manager of the securities account, shall submit a notification of this fact to the manager of the stock-register within two business days. The manager of the stock-register shall enter the change in the stock-register based on the notification without delay. The data deleted from the stock-register shall remain to be identifiable.
- 9.8. The Company accepts the owner certificates and the securities account statements issued by KELER Központi Értéktár Zrt. ("KELER Zrt."), as depository, for the relevant date based on KELER Zrt's verification to verify the ownership of the shares.
- 9.9. The senior officer of the Company under Article 6(122) of the Credit Institutions Act shall make a declaration to the Company's Board of Directors with regards to the shares owned by the senior officer and issued by the Company.

10. Rights and Obligations of Shareholders

10.1. Obligations of shareholders:

- 10.1.1. The liability of the shareholder to the Company extends to the provision of the nominal value or the par value of share. The shareholder shall not be liable for the obligation of the Company otherwise.
- 10.1.2. During the existence of the Company, the shareholder shall not reclaim its financial contribution already provided. Except in the case of a share capital decrease, no payments shall be made to the shareholder against the share capital based on its membership status.
- 10.1.3. Acquisition of a controlling stake in the Company is governed by the rules set forth in the Capital Market Act and the Credit Institutions Act.

10.2. Rights of shareholders:

- 10.2.1. The shareholder is entitled to exercise its rights as a shareholder when in possession of the owner certification defined by the statutory provisions related to shares and securities. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. In addition to the above, the provisions of clause 12.1 shall also be required for the shareholder to exercise its rights related to the General Meeting.
- 10.2.2. The shareholder shall practice his rights in person or by way of a substitute (representative) or by a shareholder substitute defined by the Civil Code and the Capital Market Act. A power of attorney is valid for one General Meeting or a specific period of time, but at maximum 12 months. The power of attorney remains valid for the continuation of any suspended General Meeting and any General Meeting convened for a second time due to a lack of

quorum. The power of attorney must be submitted to the Company in the form of an authentic instrument or public instrument with full evidencing power. A member of the Board of Directors or the Supervisory Board may act as a representative if they have clear written instructions for voting with regard to each draft proposal given by the principal. The Company's auditor and the Company's property inspector cannot become representatives. The shareholder may assign a substitute who represents him in the general assembly if he sends the form included in the Annex 1 or 2 of the Articles of Association filled out as a private deed to the Company by post or as an electronic document until the end of the working day before the day of the general assembly. If the shareholder is represented by more than one proxy and they vote differently or make contradictory declarations, each vote cast and declaration made by them shall be null and void.

- 10.2.3. The shareholder may request his shares to be credited to a securities account after the nominal value, or where the nominal value and the accounting par value are different, the amount of the accounting par value of the shares has been paid in full.
- 10.2.4. The shareholder is entitled to receive a proportionate share of the Company's earnings after tax under the accounting laws that the General Meeting orders to be divided, corresponding to the nominal value of his shares (dividend). The dividend shall be calculated with regard to the rights relating to the classes of shares determined in the Articles of Association.
- 10.2.5. Shareholders who are on the Company's shareholders list on the day that is determined by the general assembly's decision on dividend payment are entitled to receive dividends. Between the beginning date of dividend payment and the date of decision on dividend payment has to be a period of 20 working days.
- 10.2.6. If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.
- 10.2.7. The shareholder is entitled to participate in general assembly, ask for information and make remarks. The Board of Directors binds the supply of information and access to the documents to the signing of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may reject the request for information and access to the documents if it would compromise the Company's business, bank, securities or other similar secrets or if the person requesting the information exercises this right in an abusive manner or fails to make a confidentiality statement despite having been instructed thereto. If the person requesting the information believes that the information has been denied unreasonably, he/she may request the Companies Court to oblige the Company to disclose the requested information. The Board of Directors shall provide the shareholders with the information necessary to discuss the topics on the General Meeting's agenda in a way that the shareholder shall have received the necessary information 3 days prior to the date of the General Meeting at

the latest (provided that the shareholder has submitted a written request no later than 8 days prior to the general meeting).

10.2.8. The shareholder shall have the right to submit proposals and exercise his voting rights provided by his shares within the boundaries of the law.

10.2.9. The shareholder has every minority rights ensured by the Civil Code.

10.3 Owners of class "B" dividend preference shares shall be entitled to shareholder's rights with the following alteration:

10.3.1. Dividend right: from the earnings after tax to be divided among the shareholders, owners of class "B" dividend preference shares are entitled to a dividend that is 10% higher than the dividend that owners of class "A" ordinary shares are entitled to, with the proviso that if the owner of the dividend preference shares is not entitled to a dividend in a particular business year, the unpaid dividend shall not be paid against the earnings of the subsequent years;

10.3.2. Voting rights: owners of class "B" dividend preference shares shall not be entitled to voting rights and therefore shall not be entitled to vote at the General Meeting. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with the voting rights that are connected to ordinary shares of „A" series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

10.4 Owners of class "C" ordinary shares shall be entitled to shareholder's rights with the following alteration:

10.4.1. Voting rights: owners of class "C" ordinary shares are entitled to the same voting rights as that which class "A" ordinary shares offer, i.e. one class "C" ordinary share with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints, shall entitle to ten votes.

THE ORGANIZATION OF THE COMPANY

11. The general meeting

11.1. The supreme body of the Company is the general assembly.

11.2. The Board of Directors shall convene the General Meeting at least 30 days prior to the start date of the general meeting by way of announcements published via the publication channels determined in the Articles of Association. The announcement shall include the following:

- a) the corporate name and principal address of the shareholding company;
- b) the time and date and the venue of the General Meeting;
- c) the agenda of the General Meeting;
- d) the requirements to exercise voting rights as determined in the Articles of Association;

- e) the date and time until the name of the shareholder or of the shareholder substitute wishing to participate in the General Meeting may be entered in the stock-register;
- f) the requirements determined in the Articles of Association to exercise the right to demand to obtain information or to amend the agenda of the General Meeting;
- g) information relating to the time, date, place and manner of accessing draft proposals scheduled in the agenda of the General Meeting (including the URL of the website of the Company as well), and
- h) the place, time and date of a repeated General Meeting in case of a lack of quorum at the General Meeting, and
- i) the manner of holding the General Meeting.

11.3. With the exceptions specified by the legislation or this Articles of Association, the General Meeting shall be convened by the Board of Directors – at the place specified in the invitation sent by the Board of Directors or, in the absence of the Board of Directors’ decision relating to the place, at the registered seat of the Company – if it deems necessary with regard to the operation of the Company, or if it is stipulated by the Articles of Association, or a legislative provision. Pursuant to the Integration Act, the Board of Directors shall convene the General Meeting of the Company – as soon as possible – if the Board of Directors of the Integration Organization or the Board of Directors of the ~~Central Bank~~ **Integrational Business Management Organization** initiated a General Meeting for the election of senior officers.

11.4. The general meeting shall be convened at least once a year. The ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization shall be notified of the General Meeting in advance, simultaneously with the publication of the invitation. The invitation, and the proposals and related materials – if any – regarding the agenda shall be attached to the notification. The management of the Integration Organization may request the Company, where appropriate, within 5 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization, which do not contain a proposal. The representative of the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization may attend the General Meeting of the Company with the right of consultation.

Shareholders who have submitted a relevant written request to the Company shall also be informed via electronic means of the calling of the General Meeting in addition to the channels determined by the Articles of Association.

In accordance with the provisions of the Articles of Association relating to the publication of the announcements of the Company, the Company will publish the material data of the accounts set out in the Accounting Act, the report of the Board of Directors and of the Supervisory Board, the summaries relating to the number of shares and voting rights as at the time of convening the General Meeting (including separate summaries for each class of shares), and the proposals related to the items on the agenda, the reports of the Supervisory Board related thereto, as well as the draft proposals and the forms to be used for voting by proxy (where such forms have

not been sent to the shareholders directly) at least 21 days prior to the General Meeting.

- 11.5. If the General Meeting has been convened improperly, the General Meeting may be held and resolutions may be passed only when all shareholders entitled to vote are present, provided that they unanimously consent to the holding the General Meeting.
- 11.6. In addition to the regular annual General Meeting and the cases stipulated by law, the Board of Directors shall convene an extraordinary General Meeting if the previous General Meeting or the Board of Directors decided to do so, or upon the request of the owner (owners) of shares representing at least 1% of the voting rights, with the indication of the cause and the purpose. The General Meeting may be convened by the Supervisory Board under the provisions of clauses 15.22.. The (extraordinary) General Meeting that decides about the share capital increase necessary to avoid measures, extraordinary measures determined in the Credit Institutions Act that can be imposed by the supervisory authority or the resolution procedure under Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system may also be convened at least 10 days prior to its start date.
- 11.7. Shareholders may exercise their rights in person or by way of a representative, in accordance with the provisions of clause 10.2.2.
- 11.8. The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the General Meeting lacks quorum, the second General Meeting convened for the date and time included in the original announcement shall have quorum in the matters included in the original agenda without regard to the number of participants. A repeated General Meeting that is called due to the lack of quorum may be convened for a date at least 10, but no later than 21 days from the original date.
- 11.9. The Chair of the General Meeting shall be the person requested by the Board of Directors, or in the lack thereof, the person appointed by the General Meeting. The appointment of the Chair of the General Meeting shall be valid for the relevant General Meeting, the repeated or the continued General Meeting.
- 11.10. The General Meeting may be suspended by the Chair at one time at most. In such a case the General Meeting shall be continued within 30 days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

12. The Authority of the General Meeting, the Decision-making Procedure, Exercising the Right to Vote

- 12.1. At the General Meeting, each class “A” ordinary share with a nominal value of HUF 100, i.e. Hundred Hungarian Forints, entitles to one vote; and each class “C” ordinary share with a nominal value of HUF 1,000, i.e. One Thousand Hungarian Forints, entitles to ten votes. The Company shall perform ownership compliance in relation to the General Meeting as determined in the Capital Market Act, stock market regulations and KELER Zrt’s regulations, its effective date shall be between

the 7th and 3rd trading days prior to the General Meeting. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the day of ownership compliance and whose name is included in the list of shareholders on the second working day before the beginning day of the general assembly at 18,00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transferring his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

- 12.2. The General Meeting shall pass decisions in the matters on the agenda with open ballot, with the application of computerized vote counting, by showing the voting paper or through other methods suitable for the counting of the votes. The vote – unless the General Meeting decides otherwise – shall be conducted per resolution proposal. Voting shall commence first regarding the proposals for amendments, and then the original proposal for resolution. In the case of a tied vote, the proposed resolution shall be regarded as rejected. In the case of a tied vote regarding a matter where passing a resolution is mandatory under the statutory provisions, the matter shall be put on the agenda again.
- 12.3. The following shall fall within the exclusive competence of the General Meeting:
- a) the establishment and amendment of the Articles of Association;
 - b) passing a decision to change the form of operation of the Company;
 - c) increasing and decreasing the share capital, also including the authorization of the Board of Directors set forth in clauses 7.3 and 7.4 to increase the share capital;
 - d) passing a decision on the Company to merge, fuse with, or split from another shareholding company, or to dissolve without a legal successor, or to transform into another corporate form;
 - e) electing and recalling the members of the Board of Directors and deciding about the remuneration thereof;
 - f) electing and recalling the members of the Supervisory Board and deciding about the remuneration thereof;
 - g) electing and recalling the auditor and deciding about the remuneration thereof;
 - h) providing financial support to third parties for the acquisition of the shares issued by the Company;
 - i) approval of the accounts prepared in accordance with the accounting act, including the decision on using the profit after tax as well;
 - j) decisions about the payment of dividends or interim dividends, with the exception of the case set forth in clause 14.19.1 e);
 - k) evaluating the performance of the senior officers determined in the Civil Code in the previous fiscal year and deciding about their respective indemnification;
 - l) the modification of the rights attached to a certain series of shares and the transformation of categories or classes of shares;
 - m) the issue of convertible bonds or bonds with subscription rights;
 - n) deciding on the exclusion of the priority subscription right;

- o) decisions to repurchase shares, except where the repurchase of the shares is necessary to avert a serious damage jeopardizing the Company and to accept public purchase offers made for the own shares of the Company;
- p) decisions on taking measures suitable to disrupt public tendering procedures;
- q) approval of the Supervisory Board's rules of procedure;
- r) approving the Corporate Governance Report;
- s) decisions to prepare the establishment of a recognized group of companies and about the content of the control agreement;
- t) approval of the draft control agreement;
- u) decisions on requesting to delist the shares of the Company from any stock exchange or subscription system;
- v) ~~adoption of remuneration guidelines, which shall be published on the official website of the Company within 30 days after adoption;~~
- v) decisions in all other subjects which are assigned to the exclusive authority of the General Meeting by the laws or this Articles of Association.

12.4. The Board of Directors of the Company is authorized to modify the corporate name, principal address, places of business, branch offices, as well as the activities of the Company - except for the main activity of the Company - and to modify the Articles of Association in connection therewith.

12.5. If under the Integration Act or the Articles of Association of the Integrational Organization the consent or approval of the Integration Organization or the ~~Central Bank~~ **Integrational Business Management Organization** is necessary for the passing of a General Meeting resolution, the management of the Company shall take the necessary steps to obtain the necessary authorizations.

12.6. A preliminary approval by the Integration Organization is required to adopt and amend the Articles of Association.

12.7. The General Meeting shall pass decisions on the matters falling within its authority with at least a simple majority of the votes approving the proposed resolution, except in the cases specified in Section 3:102, Subsection (3) Section 3:211, Section 3:276 of the Civil Code, as well as the cases specified by law where resolutions may be adopted with the approval of the 3/4 majority of the votes of the shareholders present – or if the law stipulates otherwise, then in accordance with the conditions specified therein. Abstentions are counted as against votes.

12.8. The General Meeting shall decide on any and all matters that the Board of Directors, the Supervisory Board, or shareholder(s) representing at least 1% of the votes present to the General Meeting. If shareholders holding in total at least 1% of all votes communicate to the Board of Directors a proposal regarding the extension of the agenda (in accordance with the rules relating to the detailedness of the agenda) or a draft proposal regarding an item included in or to be added to the agenda within 8 days after the publication of the notice convening the General Meeting, the Board of Directors will publish a notice regarding the extended agenda and/or the draft proposals submitted by the shareholders upon the communication thereof to the Board of Directors. The matter indicated in the notice must be considered as a part of the agenda.

- 12.9. A decision of the General Meeting to transform the operating mode of the Company from public to closed may only be made if at least 3/4 of the shareholders each representing 1% of the votes at most have consented to it in advance. With regard to the preliminary approval, the Board of Directors shall call the affected shareholders of the Company to declare whether they grant their approval in the announcement containing the invitation to the General Meeting. The affected shareholders shall send their written standpoint to the principal address of the Company, addressed to the Board of Directors, by the deadline set forth in the announcement, which is at least two days from the effective date of the ownership compliance related to the General Meeting deciding on the transformation of the operating mode of the Company from public to closed. If a shareholder fails to make a relevant statement within the deadline set forth in the announcement, it shall be regarded as a consent granted. Only one valid consent can be granted on the basis of one particular share. The Board of Directors of the Company shall determine the scope of affected shareholders based on the ownership compliance related to the General Meeting that decides on the transformation of the operating mode of the Company from public to closed.
- 12.10. A decision under clause 12.3 c) and l) may only be passed if more than half of the shareholders attending the General Meeting out of those shareholders who hold the affected classes and series of shares individually consents to it. In course of establishing the result of the voting, the votes cast by the shareholders of the types of shares or series of shares concerned shall be evaluated separately as well in respect of this approval, or if necessary, a separate vote shall be held for such shareholders. A class or series of shares will be regarded as affected if the decision of the General Meeting has a direct and detrimental impact on a right of the shareholder provided by this Articles of Association in relation to the relevant class or series of shares. In the course of the above, any eventual limitation or exclusion of the voting rights attached to a share shall be disregarded (except for the prohibition to exercise the voting rights attached to the own shares). Based on the authorization included in the decision of the General Meeting passed in accordance with the provisions of this clause, lawful consent to decisions made by other bodies of the Company shall be regarded as granted.

13. The Officers and the Work of the General Meeting

- 13.1. The presiding chairman of the General Meeting
- chairs the meeting in the order determined in the announcement convening the General Meeting;
 - orders the voting;
 - signs the minutes prepared about the meeting and about the decisions and appoints a shareholder in attendance to verify it.
- 13.2. The events of General Meeting shall be recorded in minutes, containing the following:
- the name and registered seat of the Company;
 - the date, venue and method of holding of the general meeting;
 - the names of the presiding chairman of the General Meeting, the minute keeper, the person authenticating the minutes and the voting clerks;
 - the major events of the general meeting and the proposals submitted;

- the proposals for resolutions, in respect of each proposal the number of the shares on behalf of which valid votes have been cast, the share capital represented by the votes cast, the number of the votes for and against and the number of abstentions;
 - any objections to a resolution made by the shareholder, a member of the Board of Directors or of the Supervisory Board, if the objector so requires.
- 13.3. The minutes shall be signed by the minute keeper and the chairman of the General Meeting, and shall be authenticated by the shareholder in attendance and elected to do so. The minutes drawn up of the General Meeting shall be sent to the ~~Central Bank~~ **Integrational Business Management Organization**, the Integration Organization and the Supervisory Authority within 15 days of the General Meeting.

14. The Board of Directors

- 14.1. The Board of Directors is the management body of the Company, the members of the Board of Directors are senior officers. The Board of Directors ensures the management of the Company as a body. The Board of Directors represents the Company against third parties, as well as before courts and other authorities. A shareholder may not deprive a senior officer of his or her the authorities. The responsibility of senior officers shall be governed by the rules of the Civil Code.
- 14.2. The members of the Board of Directors may only be natural persons. The Board of Directors consists of at least 5, but no more than 11 members. The members of the Board of Directors are elected by the General Meeting from among the shareholders or other persons. The Board of Directors shall have at least 2 members who are employed by the Company (hereinafter as “internal Member”). Furthermore, at least 2 Board Members shall be a resident, Hungarian citizen who have held a permanent Hungarian address of residence for at least 1 year.
- 14.3. The executive directors of the Company may be elected as internal Board Members. In the event that the employment status of an internal Member terminates, their Board membership shall terminate at the same time.
- 14.4. Any person who has been an auditor at the Company or at any financial institution in close relations with the Company in the 3 preceding years shall not be elected as internal member. Similarly, and person not fulfilling the requirements determined in law or in the policies issued by the Integration Organization about the suitability of senior officers and the verification thereof shall not be elected as a Board Member.
- 14.5. Board Members – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization**, other legal persons or public limited-liability companies subject to consolidated supervision with the Company – may not acquire shares in other business associations the main activity of which is the same as that of the Company, furthermore – with the exception of the ~~Central Bank~~ **Integrational Business Management Organization** and other legal persons subject to consolidated supervision with the Company –, Members may not hold a senior officer position in a business association the main activity of which is the same as that of the Company, except with the consent of the General Meeting. Board Members and their relatives—with the exception of those exempted by law—may

not enter into any transaction in their own name or for their own benefit, which falls within the Company's scope of main activity. The senior officer of the Company may, without restrictions, become a senior officer in any legal person—subject to consolidated supervision with the Company—the main activity of which is the same economic activity as that of the Company. If any senior officer of the Company accepts a new senior officer mandate, then such senior officer shall notify the Company of this fact within 15 days of accepting the office.

- 14.6. The term of mandate of the Board Members shall be for 5 years from the date of their election. Board Members may be recalled at any time, and may be re-elected once their term is expired.
- 14.7. Board Members may resign at any time, however, where it is required for the operability of the Company — in particular where the resignation would reduce the actual number of the Board of Directors below the minimum number set forth in clause 14.2, or the number of internal Members would be reduced below 2, or it would exceed the number of the external members —, the resignation shall become effective on the sixtieth day after the announcement thereof, unless the General Meeting has already provided for the election of the new Member.
- 14.8. The Board of Directors shall appoint a Chairman from among its members.
- 14.9. The Chairman of the Board of Directors (or the Board Member appointed by him/her where the Chairman is prevented from acting) shall organize the work of the Board and ensure its effective operation. This shall include in particular the following:
 - convening in writing the meeting of the Board at least 5 business days prior to the date of the meeting — except in case of urgent decisions;
 - providing for the submission of the proposals and the keeping of the minutes;
 - chairing the Meeting, ordering voting; and
 - chairing the General Meeting until the election of its newer chairman, where necessary.
- 14.10. The Board of Directors shall conduct a meeting at least once every three months, however the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall convene the Board of Directors upon the request of two Members, or in cases provided for in the legislation. The sessions shall be convened by the Chairman or the Board Member assigned by the Chairman, via an invitation forwarded at least 5 working days before the date of the session. The Chairman of the Board of Directors shall notify the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** of the session of the Board of Directors in advance, simultaneously with the sending of the invitations to the members, but at least 5 working days prior to the session, by sending the invitation and the attached materials specified herein. The authorized representatives of these organizations may participate in the session of the Board of Directors with consultation rights. The invitation shall include the agenda of the session, and the proposal and the related materials – if any – regarding all agenda shall be attached to the invitation. The management of the Integration Organization may request the Company, where appropriate, within 3 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization. With regards to issues not included in the agenda, the

Meeting shall be entitled to adopt a resolution only when all Members, or the ~~Central Bank~~ **Integrational Business Management Organization**, the representative of the Integration Organization is present at the Meeting — or participates by means of phone or video conference (by means of electronic communication) — , and consents to the discussion of the issue that is not included in the agenda. The Board of Directors cannot adopt any valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.

- 14.11. There is quorum when more than half of the Board Members are present. There is no quorum in case of infringements to what is set forth under point 14.10. Decisions of the Board of Directors shall be made with the simple majority of the voice votes of the members present, unless otherwise provided by law or the Articles of Association.
- 14.12. Minutes shall be recorded during Board Meetings. The minutes shall include the following:
- place and date of the Board Meeting,
 - the names of the Board Members present,
 - the proposals presented,
 - the decisions taken and protests raised against the decisions.

Board Members may request that their opinion be recorded in the minutes verbatim.

- 14.13. The minutes shall be signed by the Chairman of the Meeting, two further Board Members present, and the registrar. The minutes shall be sent to all Board Members, the Chair of the Supervisory Board, the Integration Organization and the ~~Central Bank~~ **Integrational business management organization** within 15 (fifteen) days after the meeting, irrespective of whether they have attended the meeting or not.
- 14.14. Board Members may also participate at the Board Meetings by means of electronic communication. The detailed rules of the same are set out in the rules of procedure of the Board.
- 14.15. The Board of Directors may only adopt valid resolutions outside of the Meeting — that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways —if the votes of more than half of the Board Members are recorded in a private document of probative value, which is forwarded to the Company's registered seat within 2 (two) business days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Board Members.

From what was set forth in point 14.10, the provisions concerning the prior notification of the Integration Organization and the ~~Central Bank~~ **Integrational business management organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **Integrational business**

management organization or the Integration Organization. The Board of Directors cannot adopt any valid resolution if the above obligations are breached.

14.16. The detailed rules for the operation of the Board of Directors are specified by the rules of procedure of the Board of Directors. The Rules of Procedure shall be drawn up by the Board of Directors themselves within the framework set by the Articles of Association.

14.17. The Board of Directors manages and controls the Company's finances. Within the framework of the Articles of Association, it is entitled to any measure that is not exclusively reserved for the General Meeting. With regards to the combination of businesses under the Company's control, the Board of Directors shall be responsible for ensuring prudent operation, and compliance with the requirements of risk-taking and capital adequacy. The Board of Directors shall exercise the rights of ownership in case of businesses owned or controlled by the Company.

14.18. The Board of Directors shall:

- prepare and present—together with the Supervisory Board's report—to the General Meeting the Company's account in compliance with the Act on Accounting and the proposition concerning the use of profits;
- prepare and present—together with the Supervisory Board's report—to the General Meeting the Company's Corporate Governance Report;
- draw up a report once a year for the General Meeting and once every three months for the Supervisory Board on the management, the Company's financial position and business policy (including subsidiaries within the Company's scope of consolidation);
- convene the Ordinary General Meeting once a year, and convene the Extraordinary General Meeting within 8 (eight) days—with the simultaneous notification of the Supervisory Board—in the event any of the Members becomes aware that as a result of the losses sustained, the Company's equity is reduced to two-thirds of the share capital, or falls below the minimum set forth by the Civil Code, furthermore, if any of the Members becomes aware that the Company is at risk of insolvency, has suspended its payments, or its assets do not cover its debts;
- ensures proper management of the Company's books;
- ensure the keeping of the list of shareholders and provides a continuous opportunity for access to the stock-register during working hours;
- decide on the acquisition of the Company's own shares, if such is necessary in order to avoid a serious damage threatening the Company;
- ensure prudent operation and compliance with the requirements of risk-taking and capital adequacy with regards to the combination of businesses under the Company's control;
- forward its Rules of Procedure to the Integration Organization within 5 (five) days from acceptance or modification thereof.
- forward within 15 (fifteen) days from the date of entry into force each of its regulations, which are provided in accordance with the regulations issued by the Integration Organization or the ~~Central Bank~~ **Integrational business management organization**.

14.19. Competence of the Board of Directors

14.19.1 Competences relating to the Company's strategy, business and financial activities

- a) approval of strategic and business policy objectives;
- b) establishment and approval of the annual financial and business plan, and commercial policy;
- c) analysis and evaluation of business policy directives on the basis of the Company's quarterly balance sheets;
- d) governance of the Company's finances, covering the approval of the Accounting policies and the relating rules;
- e) shall be entitled to the acceptance of interim accounts, moreover, to the adoption of resolutions on the payment of interim dividends, however, the prior approval of the Supervisory Board is necessary for that;
- f) defining the guidelines on risk management, which ensure the mapping of risk factors, the fitness of internal control mechanisms and the regulatory and supervisory system for the management of these, and moreover legal compliance;
- g) segregation of tasks within the organization, approval and periodic review of strategies and policies for the prevention of conflict of interests and the assumption, measurement, management, monitoring and moderation of risks (including the regulation containing the rating and estimation processes relating to the management of credit and operational risks),
- h) approval of the internal policy on the principles of publication,
- i) development and the supervision—at least on an annual basis—of the strategy and procedures for the determination and continuous maintenance of a fund which has the necessary size and composition to cover the Company's present and future risks;
- j) determining the scopes (limits) of decision relating to financial services;
- k) decision with regards to lending exceeding 10% of the Company's solvency margin (not including interbank financial transactions);
- l) decision on investments the volume of which exceeds 5% of the actual equity from an accounting perspective;
- m) decision on the commencement, suspension or termination of exercising certain activities within the scope of the Company's authorized activities (point 4);
- n) defining the conditions of the management contracts to be concluded with the asset controller;
- o) defining the operating conditions, and the rules on business transactions and conduct thereof with regards to the treasury's financial and capital market activities;
- p) the approval of the rules on the establishment of the value relating to the collateral registry, risk-taking, large exposures and collaterals;
- q) decision in matters of receivables-real estate exchanges (forced investments) in excess of HUF 200. million;
- r) decision on sales at a loss amounting to more than HUF 50. million HUF against a client or a group of clients, where individual claims became problematic.

14.19.2 Scope of tasks and competences relating to the operation and organization of the Company

- a) convening the Company's General Meeting;
- b) ensuring communication with the shareholders at an appropriate level and frequency;
- c) communication with the Supervisory Board, drawing up reports for the same;
- d) continuous monitoring of the efficiency of corporate governance practices;
- e) management of major conflicts of interest having an impact on the overall organization or operation of the Company;
- f) approval of major organizational changes (elimination, establishment of directorates);
- g) establishment of the measures and action plan which became necessary as a result of the findings of MNB;
- h) development of the financial incentive scheme;
- i) approval of the policy on Employer's loans.

14.19.3 Competences relating to capital increase and the acquisition of the Company's own shares

- a) entitlement to increase the Company's share capital pursuant to what is set forth in the Articles of Association with regards to the restrictions of the authorization by the General Meeting;
- b) in the event of an authorization by the General Meeting, entitlement to decide on transactions relating to the Company's own shares in the framework of the restrictions included therein;
- c) entitlement to decide on the acquisition of the Company's own shares even in the absence of authorization by the General Meeting, if such is necessary to avoid the serious damage threatening the Company.

14.19.4. Competences relating to ~~Group governance~~, Company formation, and investments:

- a) decision on acquiring or selling other companies or business activities provided that the volume thereof exceeds HUF 100 million, and the size of the shareholding reaches what is considered to be an influential holding;
- b) with regards to the single-member companies owned by the Company, decision-making in matters falling within the competence of the highest authority, and the exercise of the ownership rights;
- c) exercise of membership rights under the Civil Code with regards to companies falling under the control of the Company;
- d) giving instructions to the board of directors of a credit institute, financial business, ancillary services undertaking—in case of which the Company's influence exceeds 50 (fifty) percent of the holding of shares—on account of complying with and performing the requirements of consolidated supervision.

14.19.5 Rights relating to the Company's representation

- a) development of and supervising compliance with the directives relating to the publication of those information the disclosure of which is required by the applicable legal provisions;
- b) exercise of the employer's rights with regards to executive directors (executive director: Chief Executive Officer and their deputies);
- c) appointment of workers who are authorized to act on behalf of the Company—and who has to be entered into the companies register—, and approval of the regulation including the procedural rules of transferring the joint power to sign of two internal Board Members.

14.19.6 Competences relating to its own operation:

- a) making proposals—where necessary—to the General Meeting in respect of the nomination of the Board Member(s) and their remuneration;
- b) election and removal of the Board of Directors' Chairman;
- c) acceptance and amendment of the Board's Rules of Procedure;
- d) entitlement to form permanent or ad hoc committees with the participation of the Board Members and/or external persons (employees, external experts, etc.), and to grant the necessary authorization to these bodies;
- e) may use the services of external advisors or experts in order to fulfil its tasks;
- f) quarterly review on the implementation of its own previous resolutions.

14.19.7. Further competences:

- a) **executing the group-level Remuneration Policy;**
- b) decision in all further issues which are assigned to the competence of the Board by the General Meeting;
- c) decision in all further issues which are assigned to the competence of the Board of Directors by law, or which are placed by the Board of Directors into its own jurisdiction—as matters not allocated to the exclusive competence of the General Meeting—, or the negotiation of which is required by any of the Board Members or the Supervisory Board;
- d) reporting with regards to ongoing cases under its own competence.

14.20. The employer's rights as set forth in point 14.19.5 b) are exercised by the Board of Directors. Unless provided otherwise by the Board of Directors, the Chief Executive Officer shall exercise the employer's rights in respect of the Company's other employees.

14.21. The Board of Directors is entitled to acquire the Company's own shares in an amount permitted by laws even in the absence of a preliminary authorization by the General Meeting, if such is necessary to avoid serious damage directly threatening the Company. In such cases, the Board of Directors shall provide information during the upcoming General Meeting on the reasons for the acquisition of the Company's own shares, the number of acquired shares, the total nominal value thereof, and

moreover of the ratio of such shares to the Company's share capital and the consideration that was paid.

15. The Supervisory Board

- 15.1. The members of the Supervisory Board may only be natural persons.
- 15.2. The Supervisory Board has at least 3 (three), but in any case not more than 9 (nine) members, the majority of which, but at least 3 members shall be independent persons under the Civil Code, and except for the persons representing the employees, they may not be in an employment relationship with the Company. Members of the Supervisory Board shall be elected by the General Meeting for a term not exceeding 5 (five) years. The Chairman of the Supervisory Board shall convene the General Meeting, if the number of the members of the Supervisory Board has fallen below 3 (three).
- 15.3. The members of the Supervisory Board shall be persons of legal age, whose legal capacity required for the fulfilment of their responsibilities has not been restricted. Persons against whom any statutory reason for disqualification exists concerning senior officers under the Civil Code, persons whose relatives under Section 8:1 (2) of the Civil Code are senior officers of the Company under the Civil Code, as well as persons who do not comply with the conditions set forth in the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization may not be members of the Supervisory Board.
- 15.4. The members of the Supervisory Board shall take part in the work of the Supervisory Board in person. The members of the Supervisory Board shall be independent from the Board of Directors of the Company and shall not be given orders in the course of their activity.
- 15.5. Members of the Supervisory Board may be removed from their post at any time and may be re-elected once their assignment has terminated. The rules on the termination of the mandate of senior officers pursuant to Section 3:25 of the Civil Code shall also apply to the termination of the membership of the Supervisory Board, however, the members of the Supervisory Board shall send their resignation to the Board of Directors of the Company.
- 15.6. The Supervisory Board shall elect a chairman out of its members.
- 15.7. If not excluded by a provision of the Articles of Association approved by the workers' council, one third of the members of the Supervisory Board, the representatives of the employees shall be appointed by the workers' council if the annual average headcount of full-time employees working for the Company exceeds 200 (two hundred) people.

The people appointed by the workers' council shall be elected to the Supervisory Board at the first General Meeting after their appointment unless statutory disqualifying reasons exist against the candidates.

- 15.8. The Supervisory Board shall hold its meetings as necessary, but at least every 3 months. The Chairman of the Supervisory Board shall be entitled to convene the meetings of the Supervisory Board anytime. Any member of the Supervisory Board is entitled to request the Chairman to convene the meeting of the Supervisory Board in writing, indicating the reason for and the goal of the meeting. Within 10 (ten) days after receiving the request, the Chairman shall arrange the organization of the meeting at a date within 30 (thirty) days. If the Chairman does not convene the meeting of the Supervisory Board as described above, the members of the Supervisory Board shall be entitled to do so. The Chairman of the Board of Directors or two members of the Board of Directors shall also be entitled to initiate the convening of the Supervisory Board.
- 15.9. The meetings shall be convened by the Chairman via invitation in electronic message or documentary form. The ~~Central Bank~~ **Integrational business management organization** and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with sending the invitation to the members of the Supervisory Board, but at least 5 (five) business days prior to the meeting by sending them the materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached to the invitation and sent by e-mail or in printed form to the members of the Supervisory Board, the ~~Central Bank~~ **Integrational business management organization** and the Integration Organization. With regards to issues not included in the agenda, the meeting shall be entitled to adopt a resolution only when all members, or the representative of the ~~Central Bank~~ **Integrational business management organization** or the Integration Organization is present at the meeting—or has the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The representatives of ~~Central Bank~~ **Integrational business management organization** and the Integration Organization shall be entitled to attend the meeting of the Supervisory Board in a consultative capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.
- 15.10. The quorum of the Supervisory Board shall be the presence of two third of its members, but at least 3 (three) members. The Supervisory Board adopts its resolutions by simple majority. The Supervisory Board does not have a quorum if the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** were not invited to the meeting of the Supervisory Board 5 business days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.
- 15.11. The Chairman of the Board of Directors, the CEO or his agent and the permanent auditor is entitled to attend the meeting of the Supervisory Board in a consultative capacity. At the request of the Supervisory Board, the permanent auditor shall be obliged to attend the meeting of the Supervisory Board. The Supervisory Board shall add the items suggested by the permanent auditor to the agenda.
- 15.12. Minutes shall be recorded during Supervisory Board meetings. The minutes shall include the following:
- place and date of the meeting,

- the name of members present,
- the proposals presented,
- the decisions made and protests raised against the decisions.

Supervisory Board members may request that their opinion be recorded in the minutes verbatim.

The minutes shall be signed by the Chairman of the Meeting and two attending Supervisory Board members. The minutes of the meeting of the Supervisory Board shall be sent to all Supervisory Board members (regardless whether he/she was present at the meeting or not) within 15 (fifteen) days of the date of the meeting.

- 15.13. Supervisory Board members may also participate at the meetings of the Supervisory Board by means of electronic communication. The detailed rules of the same are set out in the rules of procedure of the Supervisory Board.
- 15.14. The Supervisory Board may only adopt valid resolutions outside of the meeting—that is without convening and holding a meeting, via telephone, facsimile, electronic messages or similar ways— if the votes of more than half of the Supervisory Board members are recorded in a private document of probative value, which is forwarded to the Company’s registered seat within 2 (two) business days following the date on which the call for the adoption of a resolution outside of a meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Supervisory Board members.

From what was set forth in point 15.9, the provisions concerning the prior notification of the Integration Organization and the ~~Central Bank~~ **Integrational business management organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the meetings, provided that a panel meeting shall be held upon the request of the ~~Central Bank~~ **Integrational business management organization** or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

- 15.15. The Supervisory Board shall establish its own rules of procedure in the framework of the Articles of Association, which shall be approved by the General Meeting.
- 15.16. The Supervisory Board shall inspect the management of the Company. Consequently, it may ask for reports or clarification from the members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the Chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. The Supervisory Board shall review the Company’s report prepared in accordance with the **International Financial Reporting Standards (“IFRS”)** in

~~accordance with the Act on Accounting~~, the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board's written report, the General Meeting may not adopt a valid resolution on ~~the report prepared in accordance with the Act on Accounting~~ the report prepared in accordance with the **IFRS** and the utilization of results after tax.

- 15.17. The duties of the Supervisory Board shall include—in addition to point 15.16—particularly the following:
- a) ensuring that the Company has a monitoring system that is suitable for comprehensive and effective operation;
 - b) making proposals as to the audit organization and the remuneration thereof, as well as as to the auditor and the remuneration thereof based on the preliminary initiation of the management and the recommendations of the Audit Committee;
 - c) monitoring the enforcement of the professional criteria as well as requirements related to conflict of interest and independence towards the auditor, performing tasks related to the cooperation with the auditor, monitoring the services provided by the auditor for the Company in addition to the audit of the Company's financial statements, prepared in accordance with the Accounting Act, and making proposals for the Board of Directors to take measures, where necessary;
 - d) ~~evaluation of the report prepared in accordance with the~~ **International Financial Reporting Standards ("IFRS")** and monitoring the auditing process;
 - e) auditing the Company's annual and interim financial reports (including the consolidated reports);
 - f) evaluating the operation of the financial reporting system and making proposals for necessary measures;
 - g) managing the internal audit organization, in the framework of which
 1. accepting the annual audit plan of the internal audit organization;
 2. discussing the reports prepared by the internal audit organization at least every six months and controlling the implementation of the required measures;
 3. If necessary, the Supervisory Board shall hire an external expert to support the work of the internal audit organization;
 4. making a proposal for changing the headcount of the internal audit organizational unit;
 5. decisions on the establishment and termination of the employment relationship of the leader of the internal audit organization and its employees as well as on the calculation of their remuneration require the prior consent of the Supervisory Board;
 - h) preparing recommendations and proposals on the basis of the findings of audits conducted by the internal audit organization;
 - i) discussing the Corporate Governance Report;
 - j) monitoring the efficiency of the internal audit and risk management system;
 - k) assisting the work of the Board of Directors for the proper inspection of the financial reporting system, and

- l) the acceptance ~~and review~~ of the principles of the **group-level Remuneration Policy**;
- m) **making decision on the remuneration of the members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium)**.
- n) **supervision of the remuneration of managers liable for internal audits, compliance and risk management**.

15.18. Within 10 (ten) days of the Supervisory Board's meeting, the Chairman of the Supervisory Board shall submit to the Supervisory Authority—and, within 15 (fifteen) days to the Integration Organization and the ~~Central Bank~~ **Integrational business management organization**—the minutes, proposals and reports pertaining to the agenda item, discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the control or management of the Company.

15.19. The members of the Supervisory Board attend the General Meetings in a consultative capacity.

15.20. The Supervisory Board shall act as a body. It may share supervision amongst its members on a permanent basis. Sharing supervision does not affect the responsibility of the member of the Supervisory Board or his or her right to expand the supervision to other activities falling under the supervisory tasks of the Supervisory Board.

15.21. If the Supervisory Board believes that the activity of the Board of Directors infringes the law, the Articles of Association or the resolutions of the General Meeting or is against the interests of the Company or the shareholders in any other manner, the Supervisory Board shall convene the extraordinary General Meeting of the Company and shall make a proposal regarding the agenda of the same.

15.22. The Supervisory Board may request that the Meeting of the Board of Directors be convened and may propose adding certain items to the agenda.

16. The Audit Committee

16.1. The Audit Committee shall comprise of minimum 3 (three) and maximum 9 (nine) members. The members of the Audit Committee shall be elected by the General Meeting of the Company from among the independent members of the Supervisory Board, for a period not exceeding 5 (five) years.

16.2. The Audit Committee shall support the Supervisory Board in the monitoring of the financial reporting system of the Company as well as in the selection of and cooperation with the auditor. Accordingly, the scope of competence of the Audit Committee shall include:

- a) ~~evaluation of the report prepared in accordance with the~~ **International Financial Reporting Standards (“IFRS”)** and monitoring the auditing process;
- b) preparing a recommendation pertaining to the appointment of an auditor for the Supervisory Board;
- c) cooperation in preparing the contract to be concluded with the auditor;

- d) monitoring the enforcement of the professional requirements and conflict of interest restrictions towards the auditor, the performance of tasks related to cooperation with the auditor, especially supervising and monitoring the additional services provided by the auditor for the Company, and making proposals for the Supervisory Board to take measures, where necessary;
- e) evaluating the operation and monitoring the process of the financial reporting system, and making proposals for necessary measures;
- f) monitoring the efficiency of the internal audit and risk management system of the Company; and
- g) assisting the work of the Supervisory Board for the proper supervision of the financial reporting system.

16.3. The detailed rules of the operation of the Audit Committee are laid out in the rules of procedure thereof.

17. Permanent Auditor

- 17.1. The Company has a permanent auditor. The permanent auditor shall be selected by the General Meeting—in order to ensure the lawful operation of the Company and supervise the management—for a period of maximum 5 (five) years from the List of Auditors disclosed by the ~~Central Bank~~ **Integrational business management organization**. The term of the permanent auditor's mandate cannot be shorter than the period lasting from the election of the permanent auditor by the General Meeting to the acceptance of the following report by the General Meeting.
- 17.2. The permanent auditor shall not be mandated unless he/she fulfils the requirements specified in Section 260 (1)-(2) and (4)-(5) of the Credit Institutions Act, as well as the conditions laid out in Section 17/K (6)-(8) of the Integration Act. The Company may not appoint as permanent auditor the employees of the Supervisory Authority, or the close relatives of the same as set forth in Section 8:1 1 of the Civil Code.
- 17.3. The Board of Directors shall conclude the agency contract with the permanent auditor, in accordance with the terms and conditions and with the remuneration stipulated by the General Meeting, within 90 (ninety) days after the appointment or the election of the permanent auditor. The agency contract concluded with the permanent auditor shall reflect the permanent auditor's obligations arising from the Integration Act and these Articles of Association. If the contract is not concluded within the aforementioned deadline, the general meeting shall elect a new permanent auditor.
- 17.4. The same auditor may be appointed again to be the Company's auditor after the 4th (fourth) year following the expiry of the previous appointment. The auditor employed by the audit company (employee, senior officer, a member obliged to provide services in person) personally responsible for the performance of audit tasks at the Company may provide auditing services at the same credit institution for a term of five years maximum, and may be reappointed only after four years from the expiry of the previous appointment.

- 17.5. The permanent auditor shall not provide any services to the Company or develop such cooperation with the management which threaten the fulfilment of his/her responsibilities as an independent and objective auditor.
- 17.6. The permanent auditor shall be responsible for conducting the permanent audit at the Company in accordance with the rules, and on that basis adopting a position in an independent auditor's report on whether the Company's financial report prepared pursuant to ~~the Accounting Act~~ in accordance with the **International Financial Reporting Standards ("IFRS")** complies with relevant laws and whether it provides a true and fair view of the Company's assets, financial situation and income, profit and loss. This shall include in particular the following:
- a) being entitled to inspect the documents, books and records of the Company, to request information from senior officers, members of the Supervisory Board and the employees of the Company, and to audit the cashbook, securities, commodities, contracts and bank accounts of the Company;
 - b) examining the trueness and lawfulness of the Company's financial report prepared pursuant to the Act on Accounting, and presenting a report on the findings of such audit to the General Meeting;
 - c) examining all material business reports to be submitted to the General Meeting, and, in particular, the financial report prepared pursuant to the Act on Accounting and the statement of assets, from the aspect of their truthfulness, accuracy and compliance with the laws and regulations;
 - d) being entitled to inspect the documents, books and records of the Company, to request information from senior officers appointed pursuant to Section 3:21 (1) of the Civil Code, members of the Supervisory Board and the employees of the Company, and to audit the payment account, cashbook, securities, commodities and contracts of the Company;
 - e) being entitled to participate on the meetings of the Supervisory Board in consultative capacity; participating on the meeting of the Supervisory Board if requested by the Supervisory Board; and being entitled to request that the Supervisory Board add the matter proposed by the same to the agenda, and the Supervisory Board shall add such item to the agenda;
 - f) reporting certain cases specified in the Credit Institutions Act, in particular those in Section 142, to the Supervisory Authority;
 - g) if the permanent auditor notices any change in the assets of the Company that threatens the satisfaction of claims against the Company or a circumstance that involves the liability of the senior officers appointed in accordance with Section 3:21 (1) of the Civil Code or the members of the Supervisory Board for their activity carried out in their professional capacity, initiating that the management take actions to enable the decision-making by the member. If the initiative is unsuccessful, the permanent auditor shall notify the Court of Company Registration acting as a legal supervisor of the legal entity of the circumstances identified without delay.
- 17.7. The permanent auditor shall be invited to the General Meeting of the Company in which the financial report of the Company prepared pursuant to ~~the Accounting Act~~ in accordance with the **International Financial Reporting Standards ("IFRS")** is discussed. The permanent auditor shall attend this meeting, however, his/her absence does not prevent the holding of the meeting.

- 17.8. If the permanent auditor notices that the financial report of the Company does not comply with the laws or fails to provide a reliable, true and fair view of the assets, financial situation, income, as well as the profit and loss of the Company, he/she shall notify the Audit Committee, the Supervisory Authority, the Integration Organization and ~~Central Bank~~ **Integrational business management organization** of such findings, beyond the legal consequences specified by the law, within 3 (three) business days at the latest following the detection.
- 17.9. The auditor shall report to the Audit Committee any key issues arising in the course of the audit and in particular any significant deficiencies related to the internal audit financial reporting process.
- 17.10. The permanent auditor shall record his/her findings relating to the provisions of section 263 (1) of the Credit Institutions Act in a separate, additional report, and shall send it to the Company's Board of Directors, Chief Executive Officer, the Chairman of the Supervisory Board, the Supervisory Authority, as well as the ~~Central Bank~~ **Integrational business management organization** and the Integration Organization on or before 31 May of the year following the relevant year.

18. Asset controller

- 18.1 The Board of Directors of the Company shall appoint an asset controller for ensuring the lawful operation of the Company and the continuous statutory inspection and verification of the collateral registry of the mortgage bonds issued by the Company. The appointment of the asset controller shall only be valid if permitted by the Supervisory Authority.
- 18.2 The asset controller may be appointed for a fixed term not exceeding five years, but may be appointed again once its original appointment has expired. The agency contract concluded between the Company and the asset controller may not be validly terminated without the consent of the Supervisory Authority.
- 18.3 The Company may not give instructions to the asset controller in its professional capacity.
- 18.4 The asset controller may inspect the books and other records of the Company that contain data necessary for the performance of its tasks and may request clarification regarding the performance of its tasks at any time. The Company shall inform the asset controller continuously about the principal and interest repayments of mortgage loans registered into the collateral registry, as well as any changes concerning the pledged items and additional collateral.
- 18.5 The asset controller shall be invited to the General Meetings of the Company, and may participate on such meetings in a consultative capacity.

19. CEO

- 19.1 The CEO is an employee employed by the Company, and is the primary senior manager employee of the Company. The Board of Directors shall exercise the

employer's rights over the CEO, with the exception of employer's rights which fall within the exclusive competence of the General Meeting.

- 19.2 The CEO qualifies as a senior manager as defined in Section 6 (1) 122 of the Credit Institutions Act, therefore only those persons shall be elected to this position against whom no reasons for disqualification or conflicts of interest as specified in Section 137. (4)-(6) of the Credit Institutions Act exist and who comply with the conditions of the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization.
- 19.3 The CEO's rights related to the CEO's membership on the Board of Directors fall within the exclusive competence of the general meeting.
- 19.4 The CEO shall perform the management and controlling of the Company's daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, the Labour Code shall apply to the employment relationship of the Chief Executive Officer, while the Credit Institutions Act and the provisions of the Civil Code shall apply to his/her election to the Board of Directors and his/her Board membership.
- 19.5 The Board of Directors and the CEO share the tasks as follows: the CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association of the Company, in accordance with the decisions taken by the General Meeting and the Board of Directors. The CEO shall be responsible for making a decision in cases which do not fall within the exclusive competence of the General Meeting or the Board of Directors. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the Board Members.
- 19.6 The CEO shall exercise the employer's rights over the employees of the Company, except for those specified in point 14.19.5. b).

20. Procuration

- 20.1 The joint signature of two persons is necessary for signing for the company (including disposing over the Company's bank account) and for assuming financial obligations related to the financial services, which can either be:
 - one internal and external Board Member jointly;
 - two internal Board Members jointly;
 - two executive directors (persons fulfilling the conditions set out in paragraph 115 of Article 6(1) of the Credit Institutions Act) jointly;
 - the joint signature rights of two internal Board Members and two executive directors can be transferred as joint signature rights in accordance with the applicable provisions of laws and the procedure set out in the internal policy approved by the Board of Directors of the Company.
- 20.2 Procuration involves that the persons authorized to sign for the Company sign their names over or under the hand-written or typed or pre-printed or printed text of the Company in accordance with the certified procuration declaration.

MISCELLANEOUS PROVISIONS

21. Delisting shares from the stock exchange

The General Meeting may only make any decisions resulting in the delisting of the shares of the Company from the stock exchange (including decisions resulting in the deletion of the tranche of securities as a form of sanction) in cases specified in the applicable regulations of the capital market and stock exchange as may be in effect from time to time.

22. Legal disputes

22.1 Any legal disputes arising from these Articles of Association between the shareholders shall be submitted to the Court of Arbitration organized under the Hungarian Chamber of Commerce and Industry.

22.2 The Company shall also be entitled to apply to a court against the decision or order of the Board of Directors of the ~~Central Bank~~ **Integrational business management organization** pursuant to the Integration Act in accordance with the rules on the judicial review of company decisions. Application to court does not have a suspensive effect, therefore, the decision or order shall be implemented irrespectively, within the specified deadline.

21.3 The Company, as the recipient of the order or decision made by the Integration Organization, shall be entitled to apply to a court to decide whether the order or decision complies with the laws, other legislation, the policies and specific directives issued by the Integration Organization and other policies on integration. Application to court does not have a suspensive effect, therefore the decision or order shall be implemented irrespectively, within the specified deadline.

23. Notice

The Company shall publish its notices on its own website (www.takarek.hu) (www.takarekjzb.hu), on the website operated by the Hungarian Central Bank (www.kozzetetelek.hu) and the website of the Budapest Stock Exchange. In the cases specified in the law or this Articles of Association, the Company shall publish some of its notices in the Company Gazette as well. The publication of the notices on the website of the Company shall replace all other disclosure obligations in the cases it is permitted by the legislation, and other relevant regulations.

24. Closing provisions

The General Meeting of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság adopted the amendments of the Articles of Association of the Company with its resolution no.

.....

* * *

These Articles of Association shall take effect on 2020.

I hereby certify that this text of the Articles of Association consolidated and countersigned by me is in compliance with the effective content approved by the Board of Directors with resolution no. /2020 ...(...).

These consolidated Articles of Association were consolidated pursuant to the second sentence of Section 51 (2) of Act V of 2006 on Public Company Information, Company Registration and Winding Up Proceedings and countersigned in Budapest, on 2020 by:

dr. Emese Holobrádi

attorney

Bar identification number:36061591

**ANNEX NO. 1
P R O X Y**

Upon the signing hereof, the undersigned _____, as the person(s) duly authorised to sign for/represent _____ (shareholder's name /company name) (registered office: _____; company registration number/registration number: _____; hereinafter the "**Shareholder**") registered in the stock register of **Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság** (Registered office: ~~H-1082 Budapest, Üllői út 48.~~ H-1117 Budapest, Magyar Tudósok körútja 9. G épület; company registration number: 01-10-043638; hereinafter: the "**Company**")

-
-

hereby authorise

(proxy's name)

(mother's name: _____; registered address: _____; personal ID No.: _____), to act on my behalf and exercise my shareholder's rights to the fullest extent on the annual ordinary / extraordinary General Meeting of the Company to be held on 20... _____, and, in the absence of a quorum, on the repeated General Meeting to be held on the date and in the place specified in the notice of meeting.

_____, _____, 20...

representing the Shareholder

representing the Shareholder

Witnessed by:

Name:

Name:

Address:

Address:

Signature:

Signature:

ANNEX NO. 2

P R O X Y

Upon the signing hereof, I, the undersigned _____, as **Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság** (registered office: ~~H-1082 Budapest, Üllői út 48.~~ H-1117 Budapest, Magyar Tudósok körútja 9. G épület; company registration number: 01-10-043638; hereinafter: the “**Company**”), hereby authorise

(proxy's name)

(mother's name: _____; registered address: _____; personal ID No.: _____), to act on my behalf and exercise my shareholder's rights to the fullest extent on the annual ordinary / extraordinary General Meeting of the Company to be held on _____ 20..., and, in the absence of a quorum, on the repeated General Meeting to be held on the date and in the place specified in the notice of meeting.

_____, _____, 20...

representing the Shareholder

Witnessed by:

Name:

Name:

Address:

Address:

Signature:

Signature:

Takarék Mortgage Bank
Public Company Limited by Shares
Articles of association

Effective as of: 2020.

ARTICLES OF ASSOCIATION

PREAMBLE

Takarék Mortgage Bank Public Company Limited by Shares (hereinafter as ‘Company’), as a member of the Integration Organization of Cooperative Credit Institutions (hereinafter as ‘Integration Organization’), and as a shareholder of MTB Magyar Takarékszövetkezeti Bank Zrt., in accordance with the provisions of its operating license, operates as a cooperative credit institution as defined in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on Amendments to Certain Economy-related Legislation (hereinafter as ‘Integration Act’).

The Integration Organization, MTB Magyar Takarékszövetkezeti Bank Zrt. and the cooperative credit institutions determined in the resolution of the Central Bank of Hungary (hereinafter: Supervisory Authority or MNB), including the Company, are subject to consolidated supervision.

For issues not regulated in this Articles of Association, the provisions of the Integration Act, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter as Credit Institutions Act), Act CXX of 2001 on financial markets (hereinafter as Capital Market Act), Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter as Investment Act), Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (hereinafter as Mortgage Act) and Act V of 2013 on the Civil Code (hereinafter as Civil Code) shall apply.

THE CORPORATE NAME, PRINCIPAL ADDRESS AND ACTIVITIES OF THE COMPANY

1. The corporate name of the Company:

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság

Foreign corporate names of the Company:

in English: Takarék Mortgage Bank Co. Plc
in German: Takarék Hypothekenbank AG

The abbreviated corporate name of the Company: Takarék Jelzálogbank Nyrt.

2. The principal address of the Company:

H-1117 Budapest, Magyar Tudósok körútja 9. G épület

3. The form of the Company:

The Company is a public company limited by shares.

The Company, positioned among financial institutions, is a mortgage credit institution as a specialized credit institution.

4. The activities of the Company:

- 4.1. The Company pursues its financial service activities defined in Section 3 (1) of the Credit Institutions Act, and its ancillary financial service activities defined in Section 3 (2) of the Credit Institutions Act, and its activities defined in Section 7 (3) of the Credit Institutions Act in accordance with and in the framework of the provisions of the Credit Institutions Act, Investment Act, Mortgage Act and other legislation related to financial service activity, based on a license of the Supervisory Authority.
- 4.2. The activity (activities) of the Company that it performs under decision(s) no. 345/1998 of the Supervisory Authority in Hungarian Forints and in foreign currencies, are the following:

Main activity:

6492'08 Other credit granting

Within the above activities, the Company solely pursues the following activities as defined in Section 3 of Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds, specifically:

- accepting repayable cash and cash equivalents from the public, not including the collection of deposits,
- granting of loans, with collateral secured by mortgage lien on real property in the area of Hungary and of an EEA member state,
- granting of loans without mortgage lien where demand guarantee is provided by the state,
- providing surety facilities and bank guarantees, as well as other forms of banker's obligations.

Other activities:

6499'08 Other financial service activities n.e.c., specifically:

- commercial activities with regard to interest rate swap deals, and swap deals to hedge the foreign exchange risk of the source of foreign currency thereof.

6619'08 Other activities auxiliary to financial services

5. Territory of operation:

The Company - within the limitations of the effective laws and applicable licenses - has the right to pursue its activities or certain components of its activities either in Hungary or abroad, and to establish branch offices, outlets or representations.

6. Duration:

The Company is established for an indefinite period. Apart from the year the Company was formed, the financial year of the Company shall be the same as the calendar year, with that

in the year of the formation, the financial year shall start on the day the formation of the Company is registered in the company registry.

THE REGISTERED CAPITAL, SHARES OF THE COMPANY, RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

7. Registered capital

- 7.1. The share capital of the Company is HUF 10,849,030,000, i.e. Ten Billion Eight Hundred Forty-nine Million Thirty Thousand Hungarian Forints, comprised solely of cash contributions paid to the Company.
- 7.2. The Company may also increase its share capital - except where share capital is increased through the distribution of new shares - if the nominal value of all of its shares previously issued had not yet been paid in full.
- 7.3. The General Meeting of the Company may authorize the Board of Directors in a resolution to increase the share capital. The authorization shall specify the highest amount (authorized share capital) by which the Board of Directors may increase the share capital of the Company in a period of up to 5 years determined in the resolution of the General Meeting. When deciding on the authorization to increase the share capital, the General Meeting shall also decide whether to exclude or limit the exercising of the priority subscription right defined in 7.5..

The authorization of the Board of Directors to increase the share capital also authorizes and obliges the Board of Directors to make the decisions related to the increase of the share capital which by law or according to the Articles of Association would otherwise fall within the authority of the General Meeting, and this includes amending the Articles of Association as necessary to increase the share capital.

- 7.4. When increasing the share capital, the General Meeting or the Board of Directors may contemporaneously decide that in the case of new shares to be issued or convertible bonds in the event of a conditional share capital increase may only be accepted by the person(s) designated in a resolution of the general meeting or of the Board of Directors (controlled capital increase).
- 7.5. When increasing the share capital of the Company in exchange for cash contributions, the shareholders of the Company (within that firstly the shareholders holding shares in the same series of shares as the shares distributed), then the owners of convertible bonds shall have subscription priority right in accordance with the conditions specified in the resolution of the General Meeting, or, where share capital is increased within the competence of the Board of Directors, in the resolution of the Board of Directors.

The Company shall notify the shareholders and the owners of convertible bonds via the notification channels determined in the Articles of Association of the possibility and method of exercising the subscription priority right for the receipt of shares, the nominal value and par value of such shares, as well as the commencement and closing date of the (15-day) period during which the subscription priority right may be exercised.

Upon a written proposal of the Board of Directors, the General Meeting may prohibit or limit the exercising of the priority subscription right. The proposal shall present

the reasons of the initiative to exclude the right to priority subscription, as well as the planned accounting par value of the shares. In the invitation convening the General Meeting, the Board of Directors shall mark the proposal for discussion in the agenda as part of the agenda item related to the discussion about the share capital increase, but prior to that item. The General Meeting may not adopt a valid resolution regarding the increase of the share capital until it has decided in the matter of prohibiting or limiting the exercising of the priority subscription right. The Board of Directors shall arrange for the resolution of the General Meeting to be announced via the notification channels determined in the Articles of Association at the same time as the resolution is submitted to the Companies Court.

8. Shares

- 8.1. The share capital of the Company comprises of 80,163,440, i.e. Eighty Million One Hundred Sixty-three Thousand Four Hundred Forty shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, and 2,832,686, i.e. Two Million Eight Hundred Thirty-two Thousand Six Hundred Eighty-six shares with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints each.
- 8.2. The composition of the share capital by class and type of shares:
 - 66,000,010, i.e. Sixty Million Ten class “A” ordinary shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, with a total nominal value of 6,600,001,000 HUF, i.e. Six Billion Six Hundred Million One Thousand Hungarian Forints,
 - 14,163,430, i.e. Fourteen Million One Hundred Sixty Three Thousand Four Hundred Thirty class “B” preference (dividend preference) shares with a nominal value of 100 HUF, i.e. One Hundred Hungarian Forints each, with a total nominal value of 1,416,343,000 HUF, i.e. One Billion Four Hundred Sixteen Million Three Hundred Forty-three Thousand Hungarian Forints, and a par value of 10,155,179,310 HUF, i.e. Ten Billion One Hundred Fifty-five Million One Hundred Seventy-nine Thousand Three Hundred Ten Hungarian Forints and
 - 2,832,686, i.e. Two Million Eight Hundred Thirty-two Thousand Six Hundred Eighty-six class “C” ordinary shares with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints each, with a total nominal value of 2,832,686,000 HUF, i.e. Two Billion Eight Hundred Thirty-two Million Six Hundred Eighty-six Thousand Hungarian Forints, and a par value of 20,310,358,620 HUF, i.e. Twenty Billion Three Hundred Ten Million Three Hundred Fifty-eight Thousand Six Hundred Twenty Hungarian Forints.
- 8.3. The shares of the Company are issued as dematerialized securities in compliance with the laws pertaining to securities.

9. The Transfer and Registration of Shares

- 9.1. The shares of the Company are freely transferable within the limitations of the applicable legislation and this Articles of Association, they may be acquired or transferred in a manner set forth in a specific law solely via a debit or a credit made to a securities account.

- 9.2. The Company maintains a stock-register in accordance with the effective laws, this Articles of Association and the relevant internal policy. The shareholders' ownership is certified by the entries made into the stock-register of the Company, therefore shareholders may only exercise their shareholders' rights against the Company once they have been entered into the stock-register. The stock-register shall be maintained by the Board of Directors or it may appoint a person (persons) determined in law to maintain the stock-register, in which case the fact of the appointment and the details relating to the appointed person must be disclosed.
- 9.3. The Company maintains the stock-register in accordance with the relevant provisions of Capital Market Act and the Civil Code.
- 9.4. The Board of Directors of the Company - or its representative as per the applicable laws - shall maintain a stock-register where at least the following data are provided of the shareholders:
- the names of the shareholders or their proxies, in the case of natural persons: the address of residence, mother's maiden name, citizenship; in the case of legal persons (e.g. business enterprises) and sole shareholder corporations: the principal address thereof;
 - where shares have more than one owners, the details in respect of the owners and their joint representative;
 - the number of shares held by a shareholder of each series of share, the ownership interest of each shareholder;
 - the international securities identification number, series and nominal value of the share;
 - the type of the share;
 - the date when the acquisition is recorded in the register of shareholders
 - the date of withdrawal and destruction (deletion) of the shares;
 - the reference number and the date of the decision of the Supervisory Authority in relation to the acquisition where it is necessary for acquisition.

As an annex of the stock-register, the Board of Directors or its representative set forth in the applicable law shall also maintain the data suitable for identifying the indirect ownership held in the Company, calculated according to Schedule No. 3 of the Credit Institutions Act, by owners of at least five percent. Any owner who holds or acquires at least a 5% or higher ownership interest in the Company shall notify the Company of the indirect ownership held by it in the Company and of the changes in such ownership, while simultaneously providing the identification data to the Company. The right to exercise the right to vote of any member not fulfilling this notification obligation shall be suspended by the Supervisory Authority until this obligation is fulfilled.

- 9.5. The shareholder shall be responsible for any and all damage caused to a person that results from untruthful information provided by it while requesting to be entered in the stock-register, or due to a failure to fulfil its obligation to inform set forth in clauses 9.6 and 9.7.
- 9.6. Shareholders registered in the stock-register of the Company shall notify the Board of Directors in writing within 30 days of any change in their data maintained in the stock-register.

- 9.7. If a shareholder's ownership has terminated due to a debit made to a securities account, the shareholder, or the manager of the securities account, shall submit a notification of this fact to the manager of the stock-register within two business days. The manager of the stock-register shall enter the change in the stock-register based on the notification without delay. The data deleted from the stock-register shall remain to be identifiable.
- 9.8. The Company accepts the owner certificates and the securities account statements issued by KELER Központi Értéktár Zrt. ("KELER Zrt."), as depository, for the relevant date based on KELER Zrt's verification to verify the ownership of the shares.
- 9.9. The senior officer of the Company under Article 6(122) of the Credit Institutions Act shall make a declaration to the Company's Board of Directors with regards to the shares owned by the senior officer and issued by the Company.

10. Rights and Obligations of Shareholders

10.1. Obligations of shareholders:

- 10.1.1. The liability of the shareholder to the Company extends to the provision of the nominal value or the par value of share. The shareholder shall not be liable for the obligation of the Company otherwise.
- 10.1.2. During the existence of the Company, the shareholder shall not reclaim its financial contribution already provided. Except in the case of a share capital decrease, no payments shall be made to the shareholder against the share capital based on its membership status.
- 10.1.3. Acquisition of a controlling stake in the Company is governed by the rules set forth in the Capital Market Act and the Credit Institutions Act.

10.2. Rights of shareholders:

- 10.2.1. The shareholder is entitled to exercise its rights as a shareholder when in possession of the owner certification defined by the statutory provisions related to shares and securities. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. In addition to the above, the provisions of clause 12.1 shall also be required for the shareholder to exercise its rights related to the General Meeting.
- 10.2.2. The shareholder shall practice his rights in person or by way of a substitute (representative) or by a shareholder substitute defined by the Civil Code and the Capital Market Act. A power of attorney is valid for one General Meeting or a specific period of time, but at maximum 12 months. The power of attorney remains valid for the continuation of any suspended General Meeting and any General Meeting convened for a second time due to a lack of

quorum. The power of attorney must be submitted to the Company in the form of an authentic instrument or public instrument with full evidencing power. A member of the Board of Directors or the Supervisory Board may act as a representative if they have clear written instructions for voting with regard to each draft proposal given by the principal. The Company's auditor and the Company's property inspector cannot become representatives. The shareholder may assign a substitute who represents him in the general assembly if he sends the form included in the Annex 1 or 2 of the Articles of Association filled out as a private deed to the Company by post or as an electronic document until the end of the working day before the day of the general assembly. If the shareholder is represented by more than one proxy and they vote differently or make contradictory declarations, each vote cast and declaration made by them shall be null and void.

- 10.2.3. The shareholder may request his shares to be credited to a securities account after the nominal value, or where the nominal value and the accounting par value are different, the amount of the accounting par value of the shares has been paid in full.
- 10.2.4. The shareholder is entitled to receive a proportionate share of the Company's earnings after tax under the accounting laws that the General Meeting orders to be divided, corresponding to the nominal value of his shares (dividend). The dividend shall be calculated with regard to the rights relating to the classes of shares determined in the Articles of Association.
- 10.2.5. Shareholders who are on the Company's shareholders list on the day that is determined by the general assembly's decision on dividend payment are entitled to receive dividends. Between the beginning date of dividend payment and the date of decision on dividend payment has to be a period of 20 working days.
- 10.2.6. If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.
- 10.2.7. The shareholder is entitled to participate in general assembly, ask for information and make remarks. The Board of Directors binds the supply of information and access to the documents to the signing of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may reject the request for information and access to the documents if it would compromise the Company's business, bank, securities or other similar secrets or if the person requesting the information exercises this right in an abusive manner or fails to make a confidentiality statement despite having been instructed thereto. If the person requesting the information believes that the information has been denied unreasonably, he/she may request the Companies Court to oblige the Company to disclose the requested information. The Board of Directors shall provide the shareholders with the information necessary to discuss the topics on the General Meeting's agenda in a way that the shareholder shall have received the necessary information 3 days prior to the date of the General Meeting at

the latest (provided that the shareholder has submitted a written request no later than 8 days prior to the general meeting).

10.2.8. The shareholder shall have the right to submit proposals and exercise his voting rights provided by his shares within the boundaries of the law.

10.2.9. The shareholder has every minority rights ensured by the Civil Code.

10.3 Owners of class "B" dividend preference shares shall be entitled to shareholder's rights with the following alteration:

10.3.1. Dividend right: from the earnings after tax to be divided among the shareholders, owners of class "B" dividend preference shares are entitled to a dividend that is 10% higher than the dividend that owners of class "A" ordinary shares are entitled to, with the proviso that if the owner of the dividend preference shares is not entitled to a dividend in a particular business year, the unpaid dividend shall not be paid against the earnings of the subsequent years;

10.3.2. Voting rights: owners of class "B" dividend preference shares shall not be entitled to voting rights and therefore shall not be entitled to vote at the General Meeting. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with the voting rights that are connected to ordinary shares of „A" series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

10.4 Owners of class "C" ordinary shares shall be entitled to shareholder's rights with the following alteration:

10.4.1. Voting rights: owners of class "C" ordinary shares are entitled to the same voting rights as that which class "A" ordinary shares offer, i.e. one class "C" ordinary share with a nominal value of 1,000 HUF, i.e. One Thousand Hungarian Forints, shall entitle to ten votes.

THE ORGANIZATION OF THE COMPANY

11. The general meeting

11.1. The supreme body of the Company is the general assembly.

11.2. The Board of Directors shall convene the General Meeting at least 30 days prior to the start date of the general meeting by way of announcements published via the publication channels determined in the Articles of Association. The announcement shall include the following:

- a) the corporate name and principal address of the shareholding company;
- b) the time and date and the venue of the General Meeting;
- c) the agenda of the General Meeting;
- d) the requirements to exercise voting rights as determined in the Articles of Association;

- e) the date and time until the name of the shareholder or of the shareholder substitute wishing to participate in the General Meeting may be entered in the stock-register;
- f) the requirements determined in the Articles of Association to exercise the right to demand to obtain information or to amend the agenda of the General Meeting;
- g) information relating to the time, date, place and manner of accessing draft proposals scheduled in the agenda of the General Meeting (including the URL of the website of the Company as well), and
- h) the place, time and date of a repeated General Meeting in case of a lack of quorum at the General Meeting, and
- i) the manner of holding the General Meeting.

11.3. With the exceptions specified by the legislation or this Articles of Association, the General Meeting shall be convened by the Board of Directors – at the place specified in the invitation sent by the Board of Directors or, in the absence of the Board of Directors’ decision relating to the place, at the registered seat of the Company – if it deems necessary with regard to the operation of the Company, or if it is stipulated by the Articles of Association, or a legislative provision. Pursuant to the Integration Act, the Board of Directors shall convene the General Meeting of the Company – as soon as possible – if the Board of Directors of the Integration Organization or the Board of Directors of the Integrational Business Management Organization initiated a General Meeting for the election of senior officers.

11.4. The general meeting shall be convened at least once a year. The Integrational Business Management Organization and the Integration Organization shall be notified of the General Meeting in advance, simultaneously with the publication of the invitation. The invitation, and the proposals and related materials – if any – regarding the agenda shall be attached to the notification. The management of the Integration Organization may request the Company, where appropriate, within 5 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization, which do not contain a proposal. The representative of the Integrational Business Management Organization and the Integration Organization may attend the General Meeting of the Company with the right of consultation.

Shareholders who have submitted a relevant written request to the Company shall also be informed via electronic means of the calling of the General Meeting in addition to the channels determined by the Articles of Association.

In accordance with the provisions of the Articles of Association relating to the publication of the announcements of the Company, the Company will publish the material data of the accounts set out in the Accounting Act, the report of the Board of Directors and of the Supervisory Board, the summaries relating to the number of shares and voting rights as at the time of convening the General Meeting (including separate summaries for each class of shares), and the proposals related to the items on the agenda, the reports of the Supervisory Board related thereto, as well as the draft proposals and the forms to be used for voting by proxy (where such forms have not been sent to the shareholders directly) at least 21 days prior to the General Meeting.

- 11.5. If the General Meeting has been convened improperly, the General Meeting may be held and resolutions may be passed only when all shareholders entitled to vote are present, provided that they unanimously consent to the holding the General Meeting.
- 11.6. In addition to the regular annual General Meeting and the cases stipulated by law, the Board of Directors shall convene an extraordinary General Meeting if the previous General Meeting or the Board of Directors decided to do so, or upon the request of the owner (owners) of shares representing at least 1% of the voting rights, with the indication of the cause and the purpose. The General Meeting may be convened by the Supervisory Board under the provisions of clauses 15.22.. The (extraordinary) General Meeting that decides about the share capital increase necessary to avoid measures, extraordinary measures determined in the Credit Institutions Act that can be imposed by the supervisory authority or the resolution procedure under Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system may also be convened at least 10 days prior to its start date.
- 11.7. Shareholders may exercise their rights in person or by way of a representative, in accordance with the provisions of clause 10.2.2.
- 11.8. The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the General Meeting lacks quorum, the second General Meeting convened for the date and time included in the original announcement shall have quorum in the matters included in the original agenda without regard to the number of participants. A repeated General Meeting that is called due to the lack of quorum may be convened for a date at least 10, but no later than 21 days from the original date.
- 11.9. The Chair of the General Meeting shall be the person requested by the Board of Directors, or in the lack thereof, the person appointed by the General Meeting. The appointment of the Chair of the General Meeting shall be valid for the relevant General Meeting, the repeated or the continued General Meeting.
- 11.10. The General Meeting may be suspended by the Chair at one time at most. In such a case the General Meeting shall be continued within 30 days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

12. The Authority of the General Meeting, the Decision-making Procedure, Exercising the Right to Vote

- 12.1. At the General Meeting, each class "A" ordinary share with a nominal value of HUF 100, i.e. Hundred Hungarian Forints, entitles to one vote; and each class "C" ordinary share with a nominal value of HUF 1,000, i.e. One Thousand Hungarian Forints, entitles to ten votes. The Company shall perform ownership compliance in relation to the General Meeting as determined in the Capital Market Act, stock market regulations and KELER Zrt's regulations, its effective date shall be between the 7th and 3rd trading days prior to the General Meeting. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the

day of ownership compliance and whose name is included in the list of shareholders on the second working day before the beginning day of the general assembly at 18,00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transferring his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

- 12.2. The General Meeting shall pass decisions in the matters on the agenda with open ballot, with the application of computerized vote counting, by showing the voting paper or through other methods suitable for the counting of the votes. The vote – unless the General Meeting decides otherwise – shall be conducted per resolution proposal. Voting shall commence first regarding the proposals for amendments, and then the original proposal for resolution. In the case of a tied vote, the proposed resolution shall be regarded as rejected. In the case of a tied vote regarding a matter where passing a resolution is mandatory under the statutory provisions, the matter shall be put on the agenda again.
- 12.3. The following shall fall within the exclusive competence of the General Meeting:
- a) the establishment and amendment of the Articles of Association;
 - b) passing a decision to change the form of operation of the Company;
 - c) increasing and decreasing the share capital, also including the authorization of the Board of Directors set forth in clauses 7.3 and 7.4 to increase the share capital;
 - d) passing a decision on the Company to merge, fuse with, or split from another shareholding company, or to dissolve without a legal successor, or to transform into another corporate form;
 - e) electing and recalling the members of the Board of Directors and deciding about the remuneration thereof;
 - f) electing and recalling the members of the Supervisory Board and deciding about the remuneration thereof;
 - g) electing and recalling the auditor and deciding about the remuneration thereof;
 - h) providing financial support to third parties for the acquisition of the shares issued by the Company;
 - i) approval of the accounts prepared in accordance with the accounting act, including the decision on using the profit after tax as well;
 - j) decisions about the payment of dividends or interim dividends, with the exception of the case set forth in clause 14.19.1 e);
 - k) evaluating the performance of the senior officers determined in the Civil Code in the previous fiscal year and deciding about their respective indemnification;
 - l) the modification of the rights attached to a certain series of shares and the transformation of categories or classes of shares;
 - m) the issue of convertible bonds or bonds with subscription rights;
 - n) deciding on the exclusion of the priority subscription right;

- o) decisions to repurchase shares, except where the repurchase of the shares is necessary to avert a serious damage jeopardizing the Company and to accept public purchase offers made for the own shares of the Company;
 - p) decisions on taking measures suitable to disrupt public tendering procedures;
 - q) approval of the Supervisory Board's rules of procedure;
 - r) approving the Corporate Governance Report;
 - s) decisions to prepare the establishment of a recognized group of companies and about the content of the control agreement;
 - t) approval of the draft control agreement;
 - u) decisions on requesting to delist the shares of the Company from any stock exchange or subscription system;
 - v) ~~adoption of remuneration guidelines, which shall be published on the official website of the Company within 30 days after adoption;~~
 - v) decisions in all other subjects which are assigned to the exclusive authority of the General Meeting by the laws or this Articles of Association.
- 12.4. The Board of Directors of the Company is authorized to modify the corporate name, principal address, places of business, branch offices, as well as the activities of the Company - except for the main activity of the Company - and to modify the Articles of Association in connection therewith.
- 12.5. If under the Integration Act or the Articles of Association of the Integrational Organization the consent or approval of the Integration Organization or the Integrational Business Management Organization is necessary for the passing of a General Meeting resolution, the management of the Company shall take the necessary steps to obtain the necessary authorizations.
- 12.6. A preliminary approval by the Integration Organization is required to adopt and amend the Articles of Association.
- 12.7. The General Meeting shall pass decisions on the matters falling within its authority with at least a simple majority of the votes approving the proposed resolution, except in the cases specified in Section 3:102, Subsection (3) Section 3:211, Section 3:276 of the Civil Code, as well as the cases specified by law where resolutions may be adopted with the approval of the 3/4 majority of the votes of the shareholders present – or if the law stipulates otherwise, then in accordance with the conditions specified therein. Abstentions are counted as against votes.
- 12.8. The General Meeting shall decide on any and all matters that the Board of Directors, the Supervisory Board, or shareholder(s) representing at least 1% of the votes present to the General Meeting. If shareholders holding in total at least 1% of all votes communicate to the Board of Directors a proposal regarding the extension of the agenda (in accordance with the rules relating to the detailedness of the agenda) or a draft proposal regarding an item included in or to be added to the agenda within 8 days after the publication of the notice convening the General Meeting, the Board of Directors will publish a notice regarding the extended agenda and/or the draft proposals submitted by the shareholders upon the communication thereof to the Board of Directors. The matter indicated in the notice must be considered as a part of the agenda.

- 12.9. A decision of the General Meeting to transform the operating mode of the Company from public to closed may only be made if at least 3/4 of the shareholders each representing 1% of the votes at most have consented to it in advance. With regard to the preliminary approval, the Board of Directors shall call the affected shareholders of the Company to declare whether they grant their approval in the announcement containing the invitation to the General Meeting. The affected shareholders shall send their written standpoint to the principal address of the Company, addressed to the Board of Directors, by the deadline set forth in the announcement, which is at least two days from the effective date of the ownership compliance related to the General Meeting deciding on the transformation of the operating mode of the Company from public to closed. If a shareholder fails to make a relevant statement within the deadline set forth in the announcement, it shall be regarded as a consent granted. Only one valid consent can be granted on the basis of one particular share. The Board of Directors of the Company shall determine the scope of affected shareholders based on the ownership compliance related to the General Meeting that decides on the transformation of the operating mode of the Company from public to closed.
- 12.10. A decision under clause 12.3 c) and l) may only be passed if more than half of the shareholders attending the General Meeting out of those shareholders who hold the affected classes and series of shares individually consents to it. In course of establishing the result of the voting, the votes cast by the shareholders of the types of shares or series of shares concerned shall be evaluated separately as well in respect of this approval, or if necessary, a separate vote shall be held for such shareholders. A class or series of shares will be regarded as affected if the decision of the General Meeting has a direct and detrimental impact on a right of the shareholder provided by this Articles of Association in relation to the relevant class or series of shares. In the course of the above, any eventual limitation or exclusion of the voting rights attached to a share shall be disregarded (except for the prohibition to exercise the voting rights attached to the own shares). Based on the authorization included in the decision of the General Meeting passed in accordance with the provisions of this clause, lawful consent to decisions made by other bodies of the Company shall be regarded as granted.

13. The Officers and the Work of the General Meeting

- 13.1. The presiding chairman of the General Meeting
- chairs the meeting in the order determined in the announcement convening the General Meeting;
 - orders the voting;
 - signs the minutes prepared about the meeting and about the decisions and appoints a shareholder in attendance to verify it.
- 13.2. The events of General Meeting shall be recorded in minutes, containing the following:
- the name and registered seat of the Company;
 - the date, venue and method of holding of the general meeting;
 - the names of the presiding chairman of the General Meeting, the minute keeper, the person authenticating the minutes and the voting clerks;
 - the major events of the general meeting and the proposals submitted;

- the proposals for resolutions, in respect of each proposal the number of the shares on behalf of which valid votes have been cast, the share capital represented by the votes cast, the number of the votes for and against and the number of abstentions;
 - any objections to a resolution made by the shareholder, a member of the Board of Directors or of the Supervisory Board, if the objector so requires.
- 13.3. The minutes shall be signed by the minute keeper and the chairman of the General Meeting, and shall be authenticated by the shareholder in attendance and elected to do so. The minutes drawn up of the General Meeting shall be sent to the Integrational Business Management Organization, the Integration Organization and the Supervisory Authority within 15 days of the General Meeting.

14. The Board of Directors

- 14.1. The Board of Directors is the management body of the Company, the members of the Board of Directors are senior officers. The Board of Directors ensures the management of the Company as a body. The Board of Directors represents the Company against third parties, as well as before courts and other authorities. A shareholder may not deprive a senior officer of his or her the authorities. The responsibility of senior officers shall be governed by the rules of the Civil Code.
- 14.2. The members of the Board of Directors may only be natural persons. The Board of Directors consists of at least 5, but no more than 11 members. The members of the Board of Directors are elected by the General Meeting from among the shareholders or other persons. The Board of Directors shall have at least 2 members who are employed by the Company (hereinafter as “internal Member”). Furthermore, at least 2 Board Members shall be a resident, Hungarian citizen who have held a permanent Hungarian address of residence for at least 1 year.
- 14.3. The executive directors of the Company may be elected as internal Board Members. In the event that the employment status of an internal Member terminates, their Board membership shall terminate at the same time.
- 14.4. Any person who has been an auditor at the Company or at any financial institution in close relations with the Company in the 3 preceding years shall not be elected as internal member. Similarly, and person not fulfilling the requirements determined in law or in the policies issued by the Integration Organization about the suitability of senior officers and the verification thereof shall not be elected as a Board Member.
- 14.5. Board Members – with the exception of the Integrational Business Management Organization, other legal persons or public limited-liability companies subject to consolidated supervision with the Company – may not acquire shares in other business associations the main activity of which is the same as that of the Company, furthermore – with the exception of the Integrational Business Management Organization and other legal persons subject to consolidated supervision with the Company –, Members may not hold a senior officer position in a business association the main activity of which is the same as that of the Company, except with the consent of the General Meeting. Board Members and their relatives—with the exception of those exempted by law—may not enter into any transaction in their

own name or for their own benefit, which falls within the Company's scope of main activity. The senior officer of the Company may, without restrictions, become a senior officer in any legal person—subject to consolidated supervision with the Company—the main activity of which is the same economic activity as that of the Company. If any senior officer of the Company accepts a new senior officer mandate, then such senior officer shall notify the Company of this fact within 15 days of accepting the office.

- 14.6. The term of mandate of the Board Members shall be for 5 years from the date of their election. Board Members may be recalled at any time, and may be re-elected once their term is expired.
- 14.7. Board Members may resign at any time, however, where it is required for the operability of the Company — in particular where the resignation would reduce the actual number of the Board of Directors below the minimum number set forth in clause 14.2, or the number of internal Members would be reduced below 2, or it would exceed the number of the external members —, the resignation shall become effective on the sixtieth day after the announcement thereof, unless the General Meeting has already provided for the election of the new Member.
- 14.8. The Board of Directors shall appoint a Chairman from among its members.
- 14.9. The Chairman of the Board of Directors (or the Board Member appointed by him/her where the Chairman is prevented from acting) shall organize the work of the Board and ensure its effective operation. This shall include in particular the following:
 - convening in writing the meeting of the Board at least 5 business days prior to the date of the meeting — except in case of urgent decisions;
 - providing for the submission of the proposals and the keeping of the minutes;
 - chairing the Meeting, ordering voting; and
 - chairing the General Meeting until the election of its newer chairman, where necessary.
- 14.10. The Board of Directors shall conduct a meeting at least once every three months, however the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall convene the Board of Directors upon the request of two Members, or in cases provided for in the legislation. The sessions shall be convened by the Chairman or the Board Member assigned by the Chairman, via an invitation forwarded at least 5 working days before the date of the session. The Chairman of the Board of Directors shall notify the Integration Organization and the Integrational Business Management Organization of the session of the Board of Directors in advance, simultaneously with the sending of the invitations to the members, but at least 5 working days prior to the session, by sending the invitation and the attached materials specified herein. The authorized representatives of these organizations may participate in the session of the Board of Directors with consultation rights. The invitation shall include the agenda of the session, and the proposal and the related materials – if any – regarding all agenda shall be attached to the invitation. The management of the Integration Organization may request the Company, where appropriate, within 3 working days from the receipt of the notification to prepare a written proposal for the agenda items specified by the Integration Organization. With regards to issues not included in the agenda, the

Meeting shall be entitled to adopt a resolution only when all Members, or the Integrational Business Management Organization, the representative of the Integration Organization is present at the Meeting — or participates by means of phone or video conference (by means of electronic communication) — , and consents to the discussion of the issue that is not included in the agenda. The Board of Directors cannot adopt any valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.

- 14.11. There is quorum when more than half of the Board Members are present. There is no quorum in case of infringements to what is set forth under point 14.10. Decisions of the Board of Directors shall be made with the simple majority of the voice votes of the members present, unless otherwise provided by law or the Articles of Association.
- 14.12. Minutes shall be recorded during Board Meetings. The minutes shall include the following:
- place and date of the Board Meeting,
 - the names of the Board Members present,
 - the proposals presented,
 - the decisions taken and protests raised against the decisions.

Board Members may request that their opinion be recorded in the minutes verbatim.

- 14.13. The minutes shall be signed by the Chairman of the Meeting, two further Board Members present, and the registrar. The minutes shall be sent to all Board Members, the Chair of the Supervisory Board, the Integration Organization and the integrational business management organization within 15 (fifteen) days after the meeting, irrespective of whether they have attended the meeting or not.
- 14.14. Board Members may also participate at the Board Meetings by means of electronic communication. The detailed rules of the same are set out in the rules of procedure of the Board.
- 14.15. The Board of Directors may only adopt valid resolutions outside of the Meeting — that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways —if the votes of more than half of the Board Members are recorded in a private document of probative value, which is forwarded to the Company’s registered seat within 2 (two) business days—following the date on which the call for the adoption of a resolution outside of a Meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Board Members.

From what was set forth in point 14.10, the provisions concerning the prior notification of the Integration Organization and the integrational business management organization shall also be applicable *mutatis mutandis* in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the integrational business management organization or the

Integration Organization. The Board of Directors cannot adopt any valid resolution if the above obligations are breached.

14.16. The detailed rules for the operation of the Board of Directors are specified by the rules of procedure of the Board of Directors. The Rules of Procedure shall be drawn up by the Board of Directors themselves within the framework set by the Articles of Association.

14.17. The Board of Directors manages and controls the Company's finances. Within the framework of the Articles of Association, it is entitled to any measure that is not exclusively reserved for the General Meeting. With regards to the combination of businesses under the Company's control, the Board of Directors shall be responsible for ensuring prudent operation, and compliance with the requirements of risk-taking and capital adequacy. The Board of Directors shall exercise the rights of ownership in case of businesses owned or controlled by the Company.

14.18. The Board of Directors shall:

- prepare and present—together with the Supervisory Board's report—to the General Meeting the Company's account in compliance with the Act on Accounting and the proposition concerning the use of profits;
- prepare and present—together with the Supervisory Board's report—to the General Meeting the Company's Corporate Governance Report;
- draw up a report once a year for the General Meeting and once every three months for the Supervisory Board on the management, the Company's financial position and business policy (including subsidiaries within the Company's scope of consolidation);
- convene the Ordinary General Meeting once a year, and convene the Extraordinary General Meeting within 8 (eight) days—with the simultaneous notification of the Supervisory Board—in the event any of the Members becomes aware that as a result of the losses sustained, the Company's equity is reduced to two-thirds of the share capital, or falls below the minimum set forth by the Civil Code, furthermore, if any of the Members becomes aware that the Company is at risk of insolvency, has suspended its payments, or its assets do not cover its debts;
- ensures proper management of the Company's books;
- ensure the keeping of the list of shareholders and provides a continuous opportunity for access to the stock-register during working hours;
- decide on the acquisition of the Company's own shares, if such is necessary in order to avoid a serious damage threatening the Company;
- ensure prudent operation and compliance with the requirements of risk-taking and capital adequacy with regards to the combination of businesses under the Company's control;
- forward its Rules of Procedure to the Integration Organization within 5 (five) days from acceptance or modification thereof.
- forward within 15 (fifteen) days from the date of entry into force each of its regulations, which are provided in accordance with the regulations issued by the Integration Organization or the integrational business management organization.

14.19. Competence of the Board of Directors

14.19.1 Competences relating to the Company's strategy, business and financial activities

- a) approval of strategic and business policy objectives;
- b) establishment and approval of the annual financial and business plan, and commercial policy;
- c) analysis and evaluation of business policy directives on the basis of the Company's quarterly balance sheets;
- d) governance of the Company's finances, covering the approval of the Accounting policies and the relating rules;
- e) shall be entitled to the acceptance of interim accounts, moreover, to the adoption of resolutions on the payment of interim dividends, however, the prior approval of the Supervisory Board is necessary for that;
- f) defining the guidelines on risk management, which ensure the mapping of risk factors, the fitness of internal control mechanisms and the regulatory and supervisory system for the management of these, and moreover legal compliance;
- g) segregation of tasks within the organization, approval and periodic review of strategies and policies for the prevention of conflict of interests and the assumption, measurement, management, monitoring and moderation of risks (including the regulation containing the rating and estimation processes relating to the management of credit and operational risks),
- h) approval of the internal policy on the principles of publication,
- i) development and the supervision—at least on an annual basis—of the strategy and procedures for the determination and continuous maintenance of a fund which has the necessary size and composition to cover the Company's present and future risks;
- j) determining the scopes (limits) of decision relating to financial services;
- k) decision with regards to lending exceeding 10% of the Company's solvency margin (not including interbank financial transactions);
- l) decision on investments the volume of which exceeds 5% of the actual equity from an accounting perspective;
- m) decision on the commencement, suspension or termination of exercising certain activities within the scope of the Company's authorized activities (point 4);
- n) defining the conditions of the management contracts to be concluded with the asset controller;
- o) defining the operating conditions, and the rules on business transactions and conduct thereof with regards to the treasury's financial and capital market activities;
- p) the approval of the rules on the establishment of the value relating to the collateral registry, risk-taking, large exposures and collaterals;
- q) decision in matters of receivables-real estate exchanges (forced investments) in excess of HUF 200. million;
- r) decision on sales at a loss amounting to more than HUF 50. million HUF against a client or a group of clients, where individual claims became problematic.

14.19.2 Scope of tasks and competences relating to the operation and organization of the Company

- a) convening the Company's General Meeting;
- b) ensuring communication with the shareholders at an appropriate level and frequency;
- c) communication with the Supervisory Board, drawing up reports for the same;
- d) continuous monitoring of the efficiency of corporate governance practices;
- e) management of major conflicts of interest having an impact on the overall organization or operation of the Company;
- f) approval of major organizational changes (elimination, establishment of directorates);
- g) establishment of the measures and action plan which became necessary as a result of the findings of MNB;
- h) development of the financial incentive scheme;
- i) approval of the policy on Employer's loans.

14.19.3 Competences relating to capital increase and the acquisition of the Company's own shares

- a) entitlement to increase the Company's share capital pursuant to what is set forth in the Articles of Association with regards to the restrictions of the authorization by the General Meeting;
- b) in the event of an authorization by the General Meeting, entitlement to decide on transactions relating to the Company's own shares in the framework of the restrictions included therein;
- c) entitlement to decide on the acquisition of the Company's own shares even in the absence of authorization by the General Meeting, if such is necessary to avoid the serious damage threatening the Company.

14.19.4. Competences relating to ~~Group governance~~, Company formation, and investments:

- a) decision on acquiring or selling other companies or business activities provided that the volume thereof exceeds HUF 100 million, and the size of the shareholding reaches what is considered to be an influential holding;
- b) with regards to the single-member companies owned by the Company, decision-making in matters falling within the competence of the highest authority, and the exercise of the ownership rights;
- c) exercise of membership rights under the Civil Code with regards to companies falling under the control of the Company;
- d) giving instructions to the board of directors of a credit institute, financial business, ancillary services undertaking—in case of which the Company's influence exceeds 50 (fifty) percent of the holding of shares—on account of complying with and performing the requirements of consolidated supervision.

14.19.5 Rights relating to the Company's representation

- a) development of and supervising compliance with the directives relating to the publication of those information the disclosure of which is required by the applicable legal provisions;
- b) exercise of the employer's rights with regards to executive directors (executive director: Chief Executive Officer and their deputies);
- c) appointment of workers who are authorized to act on behalf of the Company—and who has to be entered into the companies register—, and approval of the regulation including the procedural rules of transferring the joint power to sign of two internal Board Members.

14.19.6 Competences relating to its own operation:

- a) making proposals—where necessary—to the General Meeting in respect of the nomination of the Board Member(s) and their remuneration;
- b) election and removal of the Board of Directors' Chairman;
- c) acceptance and amendment of the Board's Rules of Procedure;
- d) entitlement to form permanent or ad hoc committees with the participation of the Board Members and/or external persons (employees, external experts, etc.), and to grant the necessary authorization to these bodies;
- e) may use the services of external advisors or experts in order to fulfil its tasks;
- f) quarterly review on the implementation of its own previous resolutions.

14.19.7. Further competences:

- a) executing the group-level Remuneration Policy;
- b) decision in all further issues which are assigned to the competence of the Board by the General Meeting;
- c) decision in all further issues which are assigned to the competence of the Board of Directors by law, or which are placed by the Board of Directors into its own jurisdiction—as matters not allocated to the exclusive competence of the General Meeting—, or the negotiation of which is required by any of the Board Members or the Supervisory Board;
- d) reporting with regards to ongoing cases under its own competence.

14.20. The employer's rights as set forth in point 14.19.5 b) are exercised by the Board of Directors. Unless provided otherwise by the Board of Directors, the Chief Executive Officer shall exercise the employer's rights in respect of the Company's other employees.

14.21. The Board of Directors is entitled to acquire the Company's own shares in an amount permitted by laws even in the absence of a preliminary authorization by the General Meeting, if such is necessary to avoid serious damage directly threatening the Company. In such cases, the Board of Directors shall provide information during the upcoming General Meeting on the reasons for the acquisition of the Company's own shares, the number of acquired shares, the total nominal value thereof, and

moreover of the ratio of such shares to the Company's share capital and the consideration that was paid.

15. The Supervisory Board

- 15.1. The members of the Supervisory Board may only be natural persons.
- 15.2. The Supervisory Board has at least 3 (three), but in any case not more than 9 (nine) members, the majority of which, but at least 3 members shall be independent persons under the Civil Code, and except for the persons representing the employees, they may not be in an employment relationship with the Company. Members of the Supervisory Board shall be elected by the General Meeting for a term not exceeding 5 (five) years. The Chairman of the Supervisory Board shall convene the General Meeting, if the number of the members of the Supervisory Board has fallen below 3 (three).
- 15.3. The members of the Supervisory Board shall be persons of legal age, whose legal capacity required for the fulfilment of their responsibilities has not been restricted. Persons against whom any statutory reason for disqualification exists concerning senior officers under the Civil Code, persons whose relatives under Section 8:1 (2) of the Civil Code are senior officers of the Company under the Civil Code, as well as persons who do not comply with the conditions set forth in the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization may not be members of the Supervisory Board.
- 15.4. The members of the Supervisory Board shall take part in the work of the Supervisory Board in person. The members of the Supervisory Board shall be independent from the Board of Directors of the Company and shall not be given orders in the course of their activity.
- 15.5. Members of the Supervisory Board may be removed from their post at any time and may be re-elected once their assignment has terminated. The rules on the termination of the mandate of senior officers pursuant to Section 3:25 of the Civil Code shall also apply to the termination of the membership of the Supervisory Board, however, the members of the Supervisory Board shall send their resignation to the Board of Directors of the Company.
- 15.6. The Supervisory Board shall elect a chairman out of its members.
- 15.7. If not excluded by a provision of the Articles of Association approved by the workers' council, one third of the members of the Supervisory Board, the representatives of the employees shall be appointed by the workers' council if the annual average headcount of full-time employees working for the Company exceeds 200 (two hundred) people.

The people appointed by the workers' council shall be elected to the Supervisory Board at the first General Meeting after their appointment unless statutory disqualifying reasons exist against the candidates.

- 15.8. The Supervisory Board shall hold its meetings as necessary, but at least every 3 months. The Chairman of the Supervisory Board shall be entitled to convene the meetings of the Supervisory Board anytime. Any member of the Supervisory Board is entitled to request the Chairman to convene the meeting of the Supervisory Board in writing, indicating the reason for and the goal of the meeting. Within 10 (ten) days after receiving the request, the Chairman shall arrange the organization of the meeting at a date within 30 (thirty) days. If the Chairman does not convene the meeting of the Supervisory Board as described above, the members of the Supervisory Board shall be entitled to do so. The Chairman of the Board of Directors or two members of the Board of Directors shall also be entitled to initiate the convening of the Supervisory Board.
- 15.9. The meetings shall be convened by the Chairman via invitation in electronic message or documentary form. The integrational business management organization and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with sending the invitation to the members of the Supervisory Board, but at least 5 (five) business days prior to the meeting by sending them the materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached to the invitation and sent by e-mail or in printed form to the members of the Supervisory Board, the integrational business management organization and the Integration Organization. With regards to issues not included in the agenda, the meeting shall be entitled to adopt a resolution only when all members, or the representative of the integrational business management organization or the Integration Organization is present at the meeting— or has the opportunity to participate by means of phone or video conference (by means of electronic communication)—, and consents to the discussion of the issue that is not included in the agenda. The representatives of integrational business management organization and the Integration Organization shall be entitled to attend the meeting of the Supervisory Board in a consultative capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.
- 15.10. The quorum of the Supervisory Board shall be the presence of two third of its members, but at least 3 (three) members. The Supervisory Board adopts its resolutions by simple majority. The Supervisory Board does not have a quorum if the Integration Organization and the Integrational Business Management Organization were not invited to the meeting of the Supervisory Board 5 business days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.
- 15.11. The Chairman of the Board of Directors, the CEO or his agent and the permanent auditor is entitled to attend the meeting of the Supervisory Board in a consultative capacity. At the request of the Supervisory Board, the permanent auditor shall be obliged to attend the meeting of the Supervisory Board. The Supervisory Board shall add the items suggested by the permanent auditor to the agenda.
- 15.12. Minutes shall be recorded during Supervisory Board meetings. The minutes shall include the following:
- place and date of the meeting,
 - the name of members present,
 - the proposals presented,

- the decisions made and protests raised against the decisions.

Supervisory Board members may request that their opinion be recorded in the minutes verbatim.

The minutes shall be signed by the Chairman of the Meeting and two attending Supervisory Board members. The minutes of the meeting of the Supervisory Board shall be sent to all Supervisory Board members (regardless whether he/she was present at the meeting or not) within 15 (fifteen) days of the date of the meeting.

- 15.13. Supervisory Board members may also participate at the meetings of the Supervisory Board by means of electronic communication. The detailed rules of the same are set out in the rules of procedure of the Supervisory Board.
- 15.14. The Supervisory Board may only adopt valid resolutions outside of the meeting—that is without convening and holding a meeting, via telephone, facsimile, electronic messages or similar ways—if the votes of more than half of the Supervisory Board members are recorded in a private document of probative value, which is forwarded to the Company’s registered seat within 2 (two) business days following the date on which the call for the adoption of a resolution outside of a meeting and the relating documents (the proposals and voting ballots in particular) are sent to the Supervisory Board members.

From what was set forth in point 15.9, the provisions concerning the prior notification of the Integration Organization and the integrational business management organization shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the meetings, provided that a panel meeting shall be held upon the request of the integrational business management organization or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

- 15.15. The Supervisory Board shall establish its own rules of procedure in the framework of the Articles of Association, which shall be approved by the General Meeting.
- 15.16. The Supervisory Board shall inspect the management of the Company. Consequently, it may ask for reports or clarification from the members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the Chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. The Supervisory Board shall review the Company’s report prepared in accordance with the International Financial Reporting Standards (“IFRS”) ~~in accordance with the Act on Accounting~~, the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the

competence of the General Meeting. The chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board's written report, the General Meeting may not adopt a valid resolution on ~~the report prepared in accordance with the Act on Accounting~~ the report prepared in accordance with the IFRS and the utilization of results after tax.

- 15.17. The duties of the Supervisory Board shall include—in addition to point 15.16—particularly the following:
- a) ensuring that the Company has a monitoring system that is suitable for comprehensive and effective operation;
 - b) making proposals as to the audit organization and the remuneration thereof, as well as as to the auditor and the remuneration thereof based on the preliminary initiation of the management and the recommendations of the Audit Committee;
 - c) monitoring the enforcement of the professional criteria as well as requirements related to conflict of interest and independence towards the auditor, performing tasks related to the cooperation with the auditor, monitoring the services provided by the auditor for the Company in addition to the audit of the Company's financial statements, prepared in accordance with the Accounting Act, and making proposals for the Board of Directors to take measures, where necessary;
 - d) ~~evaluation of the report prepared in accordance with~~ the International Financial Reporting Standards ("IFRS") and monitoring the auditing process;
 - e) auditing the Company's annual and interim financial reports (including the consolidated reports);
 - f) evaluating the operation of the financial reporting system and making proposals for necessary measures;
 - g) managing the internal audit organization, in the framework of which
 1. accepting the annual audit plan of the internal audit organization;
 2. discussing the reports prepared by the internal audit organization at least every six months and controlling the implementation of the required measures;
 3. If necessary, the Supervisory Board shall hire an external expert to support the work of the internal audit organization;
 4. making a proposal for changing the headcount of the internal audit organizational unit;
 5. decisions on the establishment and termination of the employment relationship of the leader of the internal audit organization and its employees as well as on the calculation of their remuneration require the prior consent of the Supervisory Board;
 - h) preparing recommendations and proposals on the basis of the findings of audits conducted by the internal audit organization;
 - i) discussing the Corporate Governance Report;
 - j) monitoring the efficiency of the internal audit and risk management system;
 - k) assisting the work of the Board of Directors for the proper inspection of the financial reporting system, and
 - l) the acceptance and review of the principles of the ~~group-level~~ Remuneration Policy;

- m) making decision on the remuneration of the members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).
- n) supervision of the remuneration of managers liable for internal audits, compliance and risk management.

- 15.18. Within 10 (ten) days of the Supervisory Board's meeting, the Chairman of the Supervisory Board shall submit to the Supervisory Authority—and, within 15 (fifteen) days to the Integration Organization and the integrational business management organization—the minutes, proposals and reports pertaining to the agenda item, discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the control or management of the Company.
- 15.19. The members of the Supervisory Board attend the General Meetings in a consultative capacity.
- 15.20. The Supervisory Board shall act as a body. It may share supervision amongst its members on a permanent basis. Sharing supervision does not affect the responsibility of the member of the Supervisory Board or his or her right to expand the supervision to other activities falling under the supervisory tasks of the Supervisory Board.
- 15.21. If the Supervisory Board believes that the activity of the Board of Directors infringes the law, the Articles of Association or the resolutions of the General Meeting or is against the interests of the Company or the shareholders in any other manner, the Supervisory Board shall convene the extraordinary General Meeting of the Company and shall make a proposal regarding the agenda of the same.
- 15.22. The Supervisory Board may request that the Meeting of the Board of Directors be convened and may propose adding certain items to the agenda.

16. The Audit Committee

- 16.1. The Audit Committee shall comprise of minimum 3 (three) and maximum 9 (nine) members. The members of the Audit Committee shall be elected by the General Meeting of the Company from among the independent members of the Supervisory Board, for a period not exceeding 5 (five) years.
- 16.2. The Audit Committee shall support the Supervisory Board in the monitoring of the financial reporting system of the Company as well as in the selection of and cooperation with the auditor. Accordingly, the scope of competence of the Audit Committee shall include:
- a) ~~evaluation of the report prepared in accordance with~~ the International Financial Reporting Standards (“IFRS”) and monitoring the auditing process;
 - b) preparing a recommendation pertaining to the appointment of an auditor for the Supervisory Board;
 - c) cooperation in preparing the contract to be concluded with the auditor;

- d) monitoring the enforcement of the professional requirements and conflict of interest restrictions towards the auditor, the performance of tasks related to cooperation with the auditor, especially supervising and monitoring the additional services provided by the auditor for the Company, and making proposals for the Supervisory Board to take measures, where necessary;
- e) evaluating the operation and monitoring the process of the financial reporting system, and making proposals for necessary measures;
- f) monitoring the efficiency of the internal audit and risk management system of the Company; and
- g) assisting the work of the Supervisory Board for the proper supervision of the financial reporting system.

16.3. The detailed rules of the operation of the Audit Committee are laid out in the rules of procedure thereof.

17. Permanent Auditor

- 17.1. The Company has a permanent auditor. The permanent auditor shall be selected by the General Meeting—in order to ensure the lawful operation of the Company and supervise the management—for a period of maximum 5 (five) years from the List of Auditors disclosed by the integrational business management organization. The term of the permanent auditor's mandate cannot be shorter than the period lasting from the election of the permanent auditor by the General Meeting to the acceptance of the following report by the General Meeting.
- 17.2. The permanent auditor shall not be mandated unless he/she fulfils the requirements specified in Section 260 (1)-(2) and (4)-(5) of the Credit Institutions Act, as well as the conditions laid out in Section 17/K (6)-(8) of the Integration Act. The Company may not appoint as permanent auditor the employees of the Supervisory Authority, or the close relatives of the same as set forth in Section 8:1 1 of the Civil Code.
- 17.3. The Board of Directors shall conclude the agency contract with the permanent auditor, in accordance with the terms and conditions and with the remuneration stipulated by the General Meeting, within 90 (ninety) days after the appointment or the election of the permanent auditor. The agency contract concluded with the permanent auditor shall reflect the permanent auditor's obligations arising from the Integration Act and these Articles of Association. If the contract is not concluded within the aforementioned deadline, the general meeting shall elect a new permanent auditor.
- 17.4. The same auditor may be appointed again to be the Company's auditor after the 4th (fourth) year following the expiry of the previous appointment. The auditor employed by the audit company (employee, senior officer, a member obliged to provide services in person) personally responsible for the performance of audit tasks at the Company may provide auditing services at the same credit institution for a term of five years maximum, and may be reappointed only after four years from the expiry of the previous appointment.

- 17.5. The permanent auditor shall not provide any services to the Company or develop such cooperation with the management which threaten the fulfilment of his/her responsibilities as an independent and objective auditor.
- 17.6. The permanent auditor shall be responsible for conducting the permanent audit at the Company in accordance with the rules, and on that basis adopting a position in an independent auditor's report on whether the Company's financial report prepared pursuant to ~~the Accounting Act~~ in accordance with the International Financial Reporting Standards ("IFRS") complies with relevant laws and whether it provides a true and fair view of the Company's assets, financial situation and income, profit and loss. This shall include in particular the following:
- a) being entitled to inspect the documents, books and records of the Company, to request information from senior officers, members of the Supervisory Board and the employees of the Company, and to audit the cashbook, securities, commodities, contracts and bank accounts of the Company;
 - b) examining the trueness and lawfulness of the Company's financial report prepared pursuant to the Act on Accounting, and presenting a report on the findings of such audit to the General Meeting;
 - c) examining all material business reports to be submitted to the General Meeting, and, in particular, the financial report prepared pursuant to the Act on Accounting and the statement of assets, from the aspect of their truthfulness, accuracy and compliance with the laws and regulations;
 - d) being entitled to inspect the documents, books and records of the Company, to request information from senior officers appointed pursuant to Section 3:21 (1) of the Civil Code, members of the Supervisory Board and the employees of the Company, and to audit the payment account, cashbook, securities, commodities and contracts of the Company;
 - e) being entitled to participate on the meetings of the Supervisory Board in consultative capacity; participating on the meeting of the Supervisory Board if requested by the Supervisory Board; and being entitled to request that the Supervisory Board add the matter proposed by the same to the agenda, and the Supervisory Board shall add such item to the agenda;
 - f) reporting certain cases specified in the Credit Institutions Act, in particular those in Section 142, to the Supervisory Authority;
 - g) if the permanent auditor notices any change in the assets of the Company that threatens the satisfaction of claims against the Company or a circumstance that involves the liability of the senior officers appointed in accordance with Section 3:21 (1) of the Civil Code or the members of the Supervisory Board for their activity carried out in their professional capacity, initiating that the management take actions to enable the decision-making by the member. If the initiative is unsuccessful, the permanent auditor shall notify the Court of Company Registration acting as a legal supervisor of the legal entity of the circumstances identified without delay.
- 17.7. The permanent auditor shall be invited to the General Meeting of the Company in which the financial report of the Company prepared pursuant to ~~the Accounting Act~~ in accordance with the International Financial Reporting Standards ("IFRS") is discussed. The permanent auditor shall attend this meeting, however, his/her absence does not prevent the holding of the meeting.

- 17.8. If the permanent auditor notices that the financial report of the Company does not comply with the laws or fails to provide a reliable, true and fair view of the assets, financial situation, income, as well as the profit and loss of the Company, he/she shall notify the Audit Committee, the Supervisory Authority, the Integration Organization and integrational business management organization of such findings, beyond the legal consequences specified by the law, within 3 (three) business days at the latest following the detection.
- 17.9. The auditor shall report to the Audit Committee any key issues arising in the course of the audit and in particular any significant deficiencies related to the internal audit financial reporting process.
- 17.10. The permanent auditor shall record his/her findings relating to the provisions of section 263 (1) of the Credit Institutions Act in a separate, additional report, and shall send it to the Company's Board of Directors, Chief Executive Officer, the Chairman of the Supervisory Board, the Supervisory Authority, as well as the integrational business management organization and the Integration Organization on or before 31 May of the year following the relevant year.

18. Asset controller

- 18.1 The Board of Directors of the Company shall appoint an asset controller for ensuring the lawful operation of the Company and the continuous statutory inspection and verification of the collateral registry of the mortgage bonds issued by the Company. The appointment of the asset controller shall only be valid if permitted by the Supervisory Authority.
- 18.2 The asset controller may be appointed for a fixed term not exceeding five years, but may be appointed again once its original appointment has expired. The agency contract concluded between the Company and the asset controller may not be validly terminated without the consent of the Supervisory Authority.
- 18.3 The Company may not give instructions to the asset controller in its professional capacity.
- 18.4 The asset controller may inspect the books and other records of the Company that contain data necessary for the performance of its tasks and may request clarification regarding the performance of its tasks at any time. The Company shall inform the asset controller continuously about the principal and interest repayments of mortgage loans registered into the collateral registry, as well as any changes concerning the pledged items and additional collateral.
- 18.5 The asset controller shall be invited to the General Meetings of the Company, and may participate on such meetings in a consultative capacity.

19. CEO

- 19.1 The CEO is an employee employed by the Company, and is the primary senior manager employee of the Company. The Board of Directors shall exercise the

employer's rights over the CEO, with the exception of employer's rights which fall within the exclusive competence of the General Meeting.

- 19.2 The CEO qualifies as a senior manager as defined in Section 6 (1) 122 of the Credit Institutions Act, therefore only those persons shall be elected to this position against whom no reasons for disqualification or conflicts of interest as specified in Section 137. (4)-(6) of the Credit Institutions Act exist and who comply with the conditions of the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization.
- 19.3 The CEO's rights related to the CEO's membership on the Board of Directors fall within the exclusive competence of the general meeting.
- 19.4 The CEO shall perform the management and controlling of the Company's daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, the Labour Code shall apply to the employment relationship of the Chief Executive Officer, while the Credit Institutions Act and the provisions of the Civil Code shall apply to his/her election to the Board of Directors and his/her Board membership.
- 19.5 The Board of Directors and the CEO share the tasks as follows: the CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association of the Company, in accordance with the decisions taken by the General Meeting and the Board of Directors. The CEO shall be responsible for making a decision in cases which do not fall within the exclusive competence of the General Meeting or the Board of Directors. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the Board Members.
- 19.6 The CEO shall exercise the employer's rights over the employees of the Company, except for those specified in point 14.19.5. b).

20. Procuration

- 20.1 The joint signature of two persons is necessary for signing for the company (including disposing over the Company's bank account) and for assuming financial obligations related to the financial services, which can either be:
 - one internal and external Board Member jointly;
 - two internal Board Members jointly;
 - two executive directors (persons fulfilling the conditions set out in paragraph 115 of Article 6(1) of the Credit Institutions Act) jointly;
 - the joint signature rights of two internal Board Members and two executive directors can be transferred as joint signature rights in accordance with the applicable provisions of laws and the procedure set out in the internal policy approved by the Board of Directors of the Company.
- 20.2 Procuration involves that the persons authorized to sign for the Company sign their names over or under the hand-written or typed or pre-printed or printed text of the Company in accordance with the certified procuration declaration.

MISCELLANEOUS PROVISIONS

21. Delisting shares from the stock exchange

The General Meeting may only make any decisions resulting in the delisting of the shares of the Company from the stock exchange (including decisions resulting in the deletion of the tranche of securities as a form of sanction) in cases specified in the applicable regulations of the capital market and stock exchange as may be in effect from time to time.

22. Legal disputes

21.1 Any legal disputes arising from these Articles of Association between the shareholders shall be submitted to the Court of Arbitration organized under the Hungarian Chamber of Commerce and Industry.

21.2 The Company shall also be entitled to apply to a court against the decision or order of the Board of Directors of the integrational business management organization pursuant to the Integration Act in accordance with the rules on the judicial review of company decisions. Application to court does not have a suspensive effect, therefore, the decision or order shall be implemented irrespectively, within the specified deadline.

21.3 The Company, as the recipient of the order or decision made by the Integration Organization, shall be entitled to apply to a court to decide whether the order or decision complies with the laws, other legislation, the policies and specific directives issued by the Integration Organization and other policies on integration. Application to court does not have a suspensive effect, therefore the decision or order shall be implemented irrespectively, within the specified deadline.

23. Notice

The Company shall publish its notices on its own website (www.takarekjzb.hu), on the website operated by the Hungarian Central Bank (www.kozzetetek.hu) and the website of the Budapest Stock Exchange. In the cases specified in the law or this Articles of Association, the Company shall publish some of its notices in the Company Gazette as well. The publication of the notices on the website of the Company shall replace all other disclosure obligations in the cases it is permitted by the legislation, and other relevant regulations.

24. Closing provisions

The General Meeting of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság adopted the amendments of the Articles of Association of the Company with its resolution no.

* * *

These Articles of Association shall take effect on 2020.

I hereby certify that this text of the Articles of Association consolidated and countersigned by me is in compliance with the effective content approved by the Board of Directors with resolution no. /2020 ...(...).

These consolidated Articles of Association were consolidated pursuant to the second sentence of Section 51 (2) of Act V of 2006 on Public Company Information, Company Registration and Winding Up Proceedings and countersigned in Budapest, on 2020 by:

dr. Emese Holobrádi

attorney

Bar identification number:36061591

**ANNEX NO. 1
P R O X Y**

Upon the signing hereof, the undersigned _____, as the person(s) duly authorised to sign for/represent _____ (shareholder's name /company name) (registered office: _____; company registration number/registration number: _____; hereinafter the "Shareholder") registered in the stock register of **Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság** (Registered office: H-1117 Budapest, Magyar Tudósok körútja 9. G épület.; company registration number: 01-10-043638; hereinafter: the "Company")

-
-

hereby authorise

(proxy's name)

(mother's name: _____; registered address: _____; personal ID No.: _____), to act on my behalf and exercise my shareholder's rights to the fullest extent on the annual ordinary / extraordinary General Meeting of the Company to be held on 20... _____, and, in the absence of a quorum, on the repeated General Meeting to be held on the date and in the place specified in the notice of meeting.

_____, _____, 20...

representing the Shareholder

representing the Shareholder

Witnessed by:

Name:

Name:

Address:

Address:

Signature:

Signature:

ANNEX NO. 2

P R O X Y

Upon the signing hereof, I, the undersigned _____, as **Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság** (registered office: H-1117 Budapest, Magyar Tudósok körútja 9. G épület.; company registration number: 01-10-043638; hereinafter: the “**Company**”), hereby authorise

(proxy’s name)

(mother’s name: _____; registered address: _____; personal ID No.: _____), to act on my behalf and exercise my shareholder’s rights to the fullest extent on the annual ordinary / extraordinary General Meeting of the Company to be held on _____ 20..., and, in the absence of a quorum, on the repeated General Meeting to be held on the date and in the place specified in the notice of meeting.

_____, _____, 20...

representing the Shareholder

Witnessed by:

Name:

Name:

Address:

Address:

Signature:

Signature:



PROPOSAL
FOR AGENDA ITEM NO. 9.



APPROVAL OF THE SUPERVISORY BOARD'S AMENDED RULES OF PROCEDURE

Proposal:

1. Agenda Item No. 8 of the ordinary General Meeting of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (hereinafter referred to as: the “Company”), to be held on 28 April, 2020, shall be the amendment of the Articles of Association of the Company. The amendment of the Articles of Association shall affect the duties and competence of the Supervisory Board, thus the amendment of the Supervisory Board’s rules of procedure in accordance with the Articles of Association has become necessary. Based on Item q) of Article 12.3. of the Company’s Articles of Association, approval of the Supervisory Board’s rules of procedure falls within the exclusive competence of the General Meeting.

2. Amendment of the Supervisory Board’s rules of procedure consists partially of technical amendments, with regard to the fact that, due to the amendment of Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter referred to as: the “Integration Act”), the title “Central Bank” was changed to “integrational business management organization”. Considering that the Company has moved on to reporting based on International Financial Reporting Standards (“IFRS”), relevant items of the Supervisory Board’s rules of procedure must be amended accordingly. Relevant authorities of the group-level Remuneration Policy issued by the integrational business management organization shall be partially amended, partially complemented, and transferred onto the Supervisory Board’s rules of procedure.

In the text, deleted sections shall be indicated by strikethrough, highlighting, while new sections shall be indicated by bold letters, italics, underlining.

The Supervisory Board’s rules of procedure shall be amended as follows:

3. The chairman of the Supervisory Board and the chairman’s duties

3.5. The chairman of the Supervisory Board organizes the work of the Supervisory Board and ensures the efficient operation of the body. This shall include in particular the following:

e) within ten days of the Supervisory Board’s meeting, submitting to the Hungarian Central Bank - and, within 15 (fifteen) days of the Supervisory Board’s meeting, to the Savings Cooperatives Integration Organization [SZHISZ, that is the Szövetkezeti Hitelintézetek Integrációs Szervezete] and the ~~Central Bank~~ **integrational business management organization** - the minutes, proposals and reports pertaining to the agenda item, discussed by the Supervisory Board, the subject of which is the material breach of the Company’s internal policies or major infringement observed in the management of the Company.

4. Competence and duties of the Supervisory Board:

4.2. The Supervisory Board shall review the Company’s **report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** ~~in accordance with Act C of 2000 on Accounting~~, the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board’s written report, the General Meeting may not adopt a valid resolution on **the report prepared in accordance with the IFRS** and ~~the report prepared in accordance with the Act on Accounting~~ the utilization of results after tax.

4.3. The duties of the Supervisory Board shall include – in addition to the above - particularly:

4.3.5. evaluation of the **report prepared in accordance with the International Financial Reporting Standards (“IFRS”)** and ~~the report prepared in accordance with the Act on Accounting~~ and monitoring of the accounting process;

4.3.13. approval, ~~review of the Company’s group-level Remuneration Policy~~

4.4. **The Supervisory Board shall determine the remuneration of the members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).**

4.5. **The Supervisory Board shall oversee the remuneration of managers liable for internal audits, compliance and risk management.**

4.6. **The Supervisory Board** shall be entitled to determine additional control tasks for the Internal Audit with regard to the annual plan.

6. The operation of the Supervisory Board

6.4. The meetings shall be convened by the chairman via electronic mail (e-mail), document or written invitation forwarded at least 5 business days prior to the date of the meeting. The ~~Central Bank~~ **integrational business management organization** the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with the sending of the invitation to the members of the Supervisory Board, but at least 5 (five) business days prior to the meeting by sending them the materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached and sent by e-mail or in printed form to the members of the Supervisory Board, the ~~Central Bank~~ **integrational business management organization** and the Integration Organization. The Integration Organization may request that the Company, where appropriate, within 3 business days from the receipt of the notification, prepare a written submission for the agenda items it has specified. With regards to issues not included in the agenda, the Meeting shall be entitled to adopt a resolution only when all Members, or the representative of the Integration Organization or ~~Central Bank~~ **integrational business management organization** is present at the Meeting — or participates by means of phone or video conference (by means of electronic communication) — , and consents to the discussion of the issue that is not included in the agenda. The representatives of ~~Central Bank~~ **integrational business management organization** and the Integration Organization shall be entitled to attend the Meeting of the Supervisory Board in advisory capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

6.7. The quorum of the Supervisory Board shall be the presence of two thirds of its members, but at least 3 members. The Supervisory Board shall pass resolutions by simple majority, open voting. Before decision-making, upon request by any member, the chairman may order a secret vote. The Supervisory Board does not have a quorum if the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** was not invited to the meeting of the Supervisory Board 5 working days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.

6.9. The Supervisory Board may only adopt valid resolutions outside of the Meeting — that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways — if the votes of more than half of the Supervisory Board Members are recorded in a private document of probative value, which is forwarded to the Company's registered seat within two business days — following the date on which the call for the adoption of a resolution outside of a Meeting and the relevant documents (the proposals and voting ballots in particular) are sent to the Supervisory Board Members. From what was set forth in point 6.4, the provisions concerning the prior notification of the Integration Organization and ~~Central Bank~~ **integrational business management organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **integrational business management organization** or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached. Relevant documents shall be made available to the Supervisory Board Members simultaneously with the notification of the Integration Organization and ~~Central Bank~~ **integrational business management organization**; however, the invitation for decision-making process shall be sent two business days before the earliest possible date on which a resolution may be passed with respect to the above regulations.

6.10. Resolutions adopted by the Supervisory Board shall be archived with the serial number and year indicated. The administrative tasks associated with the operation of the body shall be carried out by the ~~Board of the Central Cabinet~~ **Company Management**.

3. The Supervisory Board's rules of procedure shall enter into force following approval by the General Meeting, on the day of the entry into force of the Articles of Association.

Proposed resolution:

The General Meeting ("General Meeting") of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("Company") approves the amended Rules of Procedure attached by the Company's Supervisory Board as an annex to the proposal concerning the agenda item, provided that the amended Rules of Procedure shall enter into force simultaneously with the entry into force of the Articles of Association approved by the Company's General Meeting on 28 April, 2020.

**Rules of procedure of the Supervisory Board
of Takarék Mortgage Bank Co. Plc.**

1. General provision

The Supervisory Board shall monitor the management activities of TakaréK Mortgage Bank Co. Plc. (hereinafter referred to as Company) on behalf of the General Meeting in accordance with Act V of 2013 on the Civil Code (Civil Code).

Its operation and activity is essentially organized and directed in the light of the Company's Articles of Association, Act V of 2013 on the Civil Code, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Act on Credit Institutions), Act CXX of 2001 on the Capital Market (Act on the Capital Market), Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds, Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and the Amendment of Certain Economy-related Laws (hereinafter referred to as: "Integration Act"), and further legal provisions and these Rules of Procedure.

2. The organizational structure of the Supervisory Board, establishment and termination of membership

2.1. The members of the Supervisory Board shall be persons of legal age, whose legal capacity required for the fulfilment of their responsibilities has not been restricted. Persons against whom any statutory reason for disqualification exists concerning senior officers under the Civil Code, persons whose relatives under Section 8:1 (2) of the Civil Code are senior officers of the Company under the Civil Code, as well as persons who do not comply with the conditions set forth in the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization may not be members of the Supervisory Board.

2.2. The Supervisory Board shall have no less than three and no more than nine members. Members of the Supervisory Board shall be elected by the General Meeting for a period not exceeding five years. The majority of the Supervisory Board, but at least 3 members shall be independent persons under the Civil Code, and except for the persons representing the employees, they may not be in an employment relationship with the Company. If the is not excluded by a provision of the Articles of Association approved by the workers' council, one third of the members of the Supervisory Board, the representatives of the employees shall be appointed by the workers' council if the annual average headcount of full-time employees working for the Company exceeds two hundred people. The people appointed by the workers' council shall be elected to the Supervisory Board at the first General Meeting after their appointment unless statutory disqualifying reasons exist against the candidates.

Except for the members delegated by the workers' council, members of the Supervisory Board may be removed from their post at any time and may be re-elected once their assignment has terminated.

2.3. Persons elected as member of the Supervisory Board shall inform in writing those companies in which they are already members of the Supervisory Board within 15 days after accepting the position. If during their membership in the Supervisory Board of the Company, they become senior officers or Supervisory Board members in another company, they shall inform the chairperson of the board thereof within 15 days after accepting the position. If the chairperson of the Supervisory Board detects any conflict of interests concerning the positions, he or she shall immediately call upon the member affected to terminate such conflict. If the member affected does not comply with the request within 30 days, the chairperson of the board shall inform the shareholders thereof.

2.4. The Supervisory Board membership shall be terminated in the following cases:

- a) upon expiry of the term of mandate in case of fixed-term mandates;
- b) upon the occurrence of the condition in case of a mandate subject to termination conditions;
- c) upon recall;
- d) upon the occurrence of the ground for exclusion or incompatibility with regards to the Supervisory Board member;
- e) upon resignation;

- f) upon death of the Supervisory Board member;
 - g) upon limitation of the Supervisory Board member's capacity within the scope necessary for the performance of his/her activities;
 - h) upon termination of the employment in the case of Supervisory Board members representing the employees.
- 2.5. Members of the Supervisory Board may resign at any time by sending a written statement to the Board of Directors of the Company. Where it is required by the operability of the board — in particular where the resignation would reduce the actual number of the Supervisory Board below three, the resignation shall become effective on the sixtieth day after the announcement thereof, unless the General Meeting has already provided for the election of the new Member.
- 2.6. If the number of the Supervisory Board is reduced for any reason during the electoral cycle, replacement is not obligatory until the number of the Supervisory Board does not fall under the lowest number specified in the Civil Code or herein. Should the mandate of any of the members be terminated during the electoral cycle, then the mandate of the newly elected member will expire on the date of expiry of the original mandate. The General Meeting shall be convened immediately if the number of the Supervisory Board members falls under the number specified in the Civil Code or in these Rules of Procedure.

3. The chairman of the Supervisory Board and the chairman's duties

- 3.1. The members of the Supervisory Board elect a chairman from among themselves.
- 3.2. The Chairman of the Supervisory Board shall convene the General Meeting, if the number of the members of the Supervisory Board has fallen below three.
- 3.3. If the mandate of the Chairman is terminated, the Supervisory Board shall elect a new chairman, and the general management of the Company or any member of the Supervisory Board is entitled to convene a board meeting.
- 3.4. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.
- 3.5. The chairman of the Supervisory Board organizes the work of the Supervisory Board and ensures the efficient operation of the body. This shall include in particular the following:
- a) convening in writing the meeting of the Supervisory Board at least 5 business days prior to the date of the meeting—except in case of urgent decisions;
 - b) providing for the submission of the proposals and the keeping of the minutes;
 - c) chairing the Meeting, ordering voting; and
 - d) the chairman of the Supervisory Board, or if he or she is prevented from acting, a member appointed by the chairman of the Supervisory Board presenting the opinion of the Supervisory Board at the General Meeting concerning the proposals submitted to the General Meeting;
 - e) within ten days of the Supervisory Board's meeting, submitting to the Hungarian Central Bank - and, within 15 (fifteen) days of the Supervisory Board's meeting, to the Savings Cooperatives Integration Organization [SZHISZ, that is the Szövetkezeti Hitelintézetek Integrációs Szervezete] and the ~~Central Bank~~ **Integrational business management organization** - the minutes, proposals and reports pertaining to the agenda item, discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the management of the Company.

4. Competence and duties of the Supervisory Board:

- 4.1. The Supervisory Board shall inspect the management of the Company. Consequently, it may ask for reports or clarification from the members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. During its work, the Supervisory Board may use the services of an external expert at the expense of the Company, if necessary and justified. The Supervisory Board shall continuously get informed on the performance of the annual plan approved by the General Meeting, for which the Board of Directors shall provide the necessary information.
- 4.2. The Supervisory Board shall review the Company's report prepared in accordance with the ~~Act C of 2000 on Accounting~~ **International Financial Reporting Standards ("IFRS")**, the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board's written report, the General Meeting may not adopt a valid resolution on the report prepared in accordance with the ~~with the Accounting Act~~ **IFRS** and the utilization of results after tax.
- 4.3. The duties of the Supervisory Board shall include – in addition to the above - particularly:
- 4.3.1. ensuring that the Company has a monitoring system that is suitable for comprehensive and effective operation;
- 4.3.2. evaluating the operation of the financial reporting system and making proposals for necessary measures;
- 4.3.3. making proposals to the General Meeting as to the audit organization to be appointed and the remuneration thereof, as well as to the auditor and the remuneration thereof based on the initiation of the management and the recommendations of the Audit Committee;
- 4.3.4. monitoring the enforcement of the professional criteria as well as requirements related to conflict of interest and independence towards the auditor, performing tasks related to the cooperation with the auditor, monitoring the services provided by the auditor for the Company in addition to the audit of the Company's financial statements, prepared in accordance with the Accounting Act, and making proposals for the Board of Directors to take measures, where necessary;
- 4.3.5. evaluation of the report prepared in accordance with ~~the Hungarian Accounting Act~~ the **International Financial Reporting Standards ("IFRS")** and monitoring of the auditing process;
- 4.3.6. auditing the Company's annual and interim financial reports (including the consolidated reports);
- 4.3.7. managing the internal audit organization in the framework of which:
- a) the Supervisory Board shall accept the annual audit plan of the internal audit,
- b) discuss the reports prepared by the internal audit organization at least every six months and control the implementation of the required measures.
- c) If necessary, the Supervisory board shall hire an external expert to support the work of the internal audit organization,
- d) shall make a proposal for changing the headcount of the internal audit;
- 4.3.8. preparing recommendations and proposals on the basis of the findings of audits conducted by the internal audit organization;
- 4.3.9. shall continuously supervise and monitor compliance of the application of methods and systems applied by the Bank in order to comply with the capital requirements set forth in the legislation via Internal Audit;

- 4.3.10. shall continuously monitor and evaluate at least once a year application of the subsystems of the internal defence lines – outside the Internal Audit (risk management, compliance function);
- 4.3.11. discussing the Corporate Governance Report;
- 4.3.12. assisting the work of the Board of Directors for the proper auditing of the financial reporting system;
- 4.3.13. accepting and reviewing the group-level Remuneration Policy.

4.4. **The Supervisory Board shall determine the remuneration of the members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).**

4.5. **The Supervisory Board shall supervise the remuneration of managers liable for internal audits, compliance and risk management.**

4.6. The Supervisory Board shall be entitled to determine additional control tasks for the Internal Audit with regard to the annual plan.

4.7. Decisions on the establishment and termination of the employment relationship of the leaders of the internal audit organization and its employees as well as on the calculation of their remuneration require the prior consent of the Supervisory Board.

4.8. The Supervisory Board shall act as a body. The Supervisory Board may assign the relevant supervisory tasks to any of its members, and may share supervision amongst its members on a permanent basis. Sharing supervision does not affect the responsibility of the member of the Supervisory Board or his or her right to expand the supervision to other activities falling under the supervisory tasks of the board.

4.9. If during its operation, the Supervisory Board identifies a fact or omission in breach of a legal provision, the Articles of Association or the resolution of the General Meeting, it shall immediately notify the Board of Directors thereof. If the Supervisory Board believes that the activity of the Board of Directors or the general management infringes the law, the Articles of Association or the resolutions of the General Meeting or is against the interests of the Company or the shareholders in any other manner, the Supervisory Board shall convene the extraordinary General Meeting of the Company and shall make a proposal regarding the agenda of the same.

4.10. The Supervisory Board shall establish its own rules of procedure in the framework of the Articles of Association, which shall be approved by the General Meeting.

4.11. The Supervisory Board and/or its chairman may request in writing via the chairman of the Board of Directors that the Meeting of the Board of Directors be convened and may propose adding certain items to the agenda.

5. Rights and obligations of the members of the Supervisory Board

5.1 The members of the Supervisory Board may exercise their rights and duties in person, no representation may be accepted.

5.2 The members of the Supervisory Board shall be independent from the Board of Directors of the Company and shall not be given orders in the course of their activity.

5.3 The members of the Supervisory Board attend the General Meetings in a consultative capacity.

5.4. The members shall treat information related to the matters of the Company as business secret.

- 5.5. Members of the Supervisory Board shall comply with the legal provisions on the prohibition of insider dealing. The information—relating to the Company’s operation and its clients—that became known to Members of the Supervisory Board in connection with their position shall not be used or disposed, or made accessible to unauthorized persons.
- 5.6. Members of the Supervisory Board shall make a declaration to the Company’s Board of Directors with regards to the shares owned by him or her and issued by the Company.
- 5.7. Once the transaction is completed, the Member of the Supervisory Board shall promptly make a declaration to the MNB in case s/he conducted a transaction—either in person or by means of representation—with regards to shares issued by the Company, or financial assets the value of which is dependent on the value or price of the aforementioned share. The members of the Supervisory Board shall inform the Company of such transactions immediately but no later than within two days, if it exceeds the transaction value specified in the Act on the Capital Market.

The declaration shall include the following:

- name of the Board Member,
 - reason for the declaration obligation,
 - name of the issuer, that is the Company,
 - name of the financial asset involved in the transaction,
 - quantity of the financial asset involved in the transaction,
 - price of the financial asset involved in the transaction,
 - nature of the transaction (such as sales or purchase),
 - the time and date and the venue of the transaction,
 - name of the investment company, credit institution conducting the transaction.
- 5.8. The members of the Supervisory Board shall immediately notify MNB, if
 - a) they are elected as another financial institution’s Board Member or Supervisory Board Member, or cease to have such positions,
 - b) acquires an influential holding in a business, or ceases to have such holding,
 - c) criminal proceedings were brought against him/her under Article 137(6) of the Act on Credit Institutions.
 - 5.9. The members of the Supervisory Board shall be liable towards the Company for damage caused by breach of the supervisory obligation in accordance with the civil law.

6. The operation of the Supervisory Board

- 6.1. The Supervisory Board shall prepare an annual or semi-annual work plan, and shall carry out its activities in accordance with such plan.
- 6.2. The Chairman may invite the representative of MNB to the meetings of the Supervisory Board. The Chairman of the Company’s Board of Directors, the CEO and the permanent auditor shall be invited to the meetings of the Supervisory Board.
- 6.3. The Supervisory Board shall hold its meetings as necessary, but at least every 3 months. The Chair of the Supervisory Board shall be entitled to convene the meetings of the Supervisory Board anytime. Any member of the Supervisory Board is entitled to request the Chair to convene the meeting of the Supervisory Board in writing, indicating the reason for and the goal of the meeting. Within 10 (ten) days after receiving the request, the chair shall arrange the organization of the meeting at a date within 30 (thirty) days. If the Chair fails to comply with the request, the member is also entitled to convene the meeting. The Chairman of the Board of Directors or two members of the Board of Directors shall also be entitled to initiate the convening of the Supervisory Board.

- 6.4. The meetings shall be convened by the chairman via electronic mail (e-mail), document or written invitation forwarded at least 5 business days prior to the date of the meeting. The ~~Central Bank~~ **Integrational business management organization** and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with the sending of the invitation to the members of the Supervisory Board, but at least 5 (five) business days prior to the meeting by sending them the materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached and sent by e-mail or in printed form to the Members of the Supervisory Board, the ~~Central Bank~~ **Integrational Business Management Organization** and the Integration Organization. The Integration Organization may request that the Company, where appropriate, within 3 business days from the receipt of the notification, prepare a written submission for the agenda items it has specified. With regards to issues not included in the agenda, the Meeting shall be entitled to adopt a resolution only when all Members, or the representative of the Integration Organization or ~~Central Bank~~ **Integrational business management organization** is present at the Meeting — or participates by means of phone or video conference (by means of electronic communication) — , and consents to the discussion of the issue that is not included in the agenda. The representatives of integrational business management organization and the Integration Organization shall be entitled to attend the Meeting of the Supervisory Board in advisory capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.
- 6.5. Based on the decision of the Chairman of the Supervisory Board, experts and those whose presence is necessary for the agenda may participate at the meetings of the Supervisory Board with consultation rights in addition to the members.
- 6.6. The Chairman of the Board of Directors of the Company, the CEO or his agent and the permanent auditor is entitled to attend the meeting of the Supervisory Board in a consultative capacity. At the request of the Supervisory Board, the permanent auditor shall be obliged to attend the meeting of the Supervisory Board. The Supervisory Board shall add the items suggested by the permanent auditor on the agenda.
- 6.7. The quorum of the Supervisory Board shall be the presence of two third of its members, but at least 3 (three) members. The Supervisory Board shall pass resolutions by simple majority, open voting. Before decision-making, upon request by any member, the chairman may order a secret vote. The Supervisory Board does not have a quorum if the Integration Organization and the ~~Central Bank~~ **Integrational Business Management Organization** were not invited to the meeting of the Supervisory Board 5 business days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.
- 6.8. All meetings of the Supervisory Board shall be recorded in writing, which shall include the following:
- place and date of the meeting of the Supervisory Board,
 - the names of the Supervisory Board members present,
 - name of the persons submitting proposals,
 - the proposals presented,
 - the decisions taken and protests raised against the decisions,
 - percentage of votes, opposing votes.

The minutes shall contain all facts or opinions proposed by the members. All minority opinions or different opinions and objections shall also be recorded, or shall attached to the minutes in writing. Results of votes and opinions of persons who voted against shall be recorded. Supervisory Board members may request that their opinion be recorded in the minutes verbatim. The minutes shall be signed by the Chairman of the Meeting and two attending Supervisory Board members. The minutes of the meeting of the Supervisory Board shall be sent to all Supervisory Board members (regardless whether he/she was present at the meeting or not) within 15 (fifteen) days of the date of the meeting.

Supervisory Board members may also participate at the meetings of the Supervisory Board by means of electronic communication. The detailed rules of the same are set out in Section 6.11.

- 6.9. The Supervisory Board may only adopt valid resolutions outside of the Meeting — that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways — if the votes of more than half of the Supervisory Board Members are recorded in a private document of probative value, which is forwarded to the Company's registered seat within two business days — following the date on which the call for the adoption of a resolution outside of a Meeting and the relevant documents (the proposals and voting ballots in particular) are sent to the Supervisory Board Members. From what was set forth in point 6.4, the provisions concerning the prior notification of the Integration Organization and the ~~Central Bank~~ **Integrational business management organization** shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the ~~Central Bank~~ **Integrational business management organization** or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached. Relevant documents shall be made available to the Supervisory Board Members simultaneously with the notification of the Integration Organization and ~~Central Bank~~ **Integrational business management organization**; however, the invitation for decision-making process shall be sent two business days before the earliest possible date on which a resolution may be passed with respect to the above regulations.
- 6.10. Resolutions adopted by the Supervisory Board shall be archived with the serial number and year indicated. The administrative tasks associated with the operation of the body shall be carried out by the Company Management.
- 6.11. All members of the Supervisory Board and persons invited to the meetings are entitled to participate at the meeting of the Supervisory Board via conference call or any other similar means of communication, if the persons present at the meeting are able to communicate with each other directly, at the same time. Such participation at the meeting shall be considered as participation in person and shall be recorded in the minutes of the meeting.

The Supervisory Board of Takarékkötvéstartó Bank Co. Plc. accepted the amendment to these Rules of procedure by its resolution No. .../2020. (.....) in accordance with the above, in a consolidated version, and the General Meeting of the Company approved it by its resolution No. ./2020.), and it enters into force upon entry into force of the Articles of Association approved on the General Meeting of the Company held on 2020.

Clause of entry into force:

These Rules of procedure shall enter into force on, upon entry into force of the Articles of Association approved on the General Meeting of the Company held on 2020.

Budapest, 2020

dr. Zsolt Harmath sgd.
the chairman of the Supervisory Board

**Rules of procedure of the Supervisory Board
of Takarékszövetkezet Nyrt.**

1. General provision

The Supervisory Board shall monitor the management activities of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (hereinafter referred to as Company) on behalf of the General Meeting in accordance with Act V of 2013 on the Civil Code (Civil Code).

Its operation and activity is essentially organized and directed in the light of the Company's Articles of Association, Act V of 2013 on the Civil Code, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Act on Credit Institutions), Act CXX of 2001 on the Capital Market (Act on the Capital Market), Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds, Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and the Amendment of Certain Economy-related Laws (hereinafter referred to as: "Integration Act"), and further legal provisions and these Rules of Procedure.

2. The organizational structure of the Supervisory Board, establishment and termination of membership

2.1. The members of the Supervisory Board shall be persons of legal age, whose legal capacity required for the fulfilment of their responsibilities has not been restricted. Persons against whom any statutory reason for disqualification exists concerning senior officers under the Civil Code, persons whose relatives under Section 8:1 (2) of the Civil Code are senior officers of the Company under the Civil Code, as well as persons who do not comply with the conditions set forth in the regulation on the suitability of senior officers and the verification of suitability published by the Integration Organization may not be members of the Supervisory Board.

2.2. The Supervisory Board shall have no less than three and no more than nine members. Members of the Supervisory Board shall be elected by the General Meeting for a period not exceeding five years. The majority of the Supervisory Board, but at least 3 members shall be independent persons under the Civil Code, and except for the persons representing the employees, they may not be in an employment relationship with the Company. If the is not excluded by a provision of the Articles of Association approved by the workers' council, one third of the members of the Supervisory Board, the representatives of the employees shall be appointed by the workers' council if the annual average headcount of full-time employees working for the Company exceeds two hundred people. The people appointed by the workers' council shall be elected to the Supervisory Board at the first General Meeting after their appointment unless statutory disqualifying reasons exist against the candidates.

Except for the members delegated by the workers' council, members of the Supervisory Board may be removed from their post at any time and may be re-elected once their assignment has terminated.

2.3. Persons elected as member of the Supervisory Board shall inform in writing those companies in which they are already members of the Supervisory Board within 15 days after accepting the position. If during their membership in the Supervisory Board of the Company, they become senior officers or Supervisory Board members in another company, they shall inform the chairperson of the board thereof within 15 days after accepting the position. If the chairperson of the Supervisory Board detects any conflict of interests concerning the positions, he or she shall immediately call upon the member affected to terminate such conflict. If the member affected does not comply with the request within 30 days, the chairperson of the board shall inform the shareholders thereof.

2.4. The Supervisory Board membership shall be terminated in the following cases:

- a) upon expiry of the term of mandate in case of fixed-term mandates;
- b) upon the occurrence of the condition in case of a mandate subject to termination conditions;
- c) upon recall;
- d) upon the occurrence of the ground for exclusion or incompatibility with regards to the Supervisory Board member;
- e) upon resignation;

- f) upon death of the Supervisory Board member;
 - g) upon limitation of the Supervisory Board member's capacity within the scope necessary for the performance of his/her activities;
 - h) upon termination of the employment in the case of Supervisory Board members representing the employees.
- 2.5. Members of the Supervisory Board may resign at any time by sending a written statement to the Board of Directors of the Company. Where it is required by the operability of the board — in particular where the resignation would reduce the actual number of the Supervisory Board below three, the resignation shall become effective on the sixtieth day after the announcement thereof, unless the General Meeting has already provided for the election of the new Member.
- 2.6. If the number of the Supervisory Board is reduced for any reason during the electoral cycle, replacement is not obligatory until the number of the Supervisory Board does not fall under the lowest number specified in the Civil Code or herein. Should the mandate of any of the members be terminated during the electoral cycle, then the mandate of the newly elected member will expire on the date of expiry of the original mandate. The General Meeting shall be convened immediately if the number of the Supervisory Board members falls under the number specified in the Civil Code or in these Rules of Procedure.

3. The chairman of the Supervisory Board and the chairman's duties

- 3.1. The members of the Supervisory Board elect a chairman from among themselves.
- 3.2. The Chairman of the Supervisory Board shall convene the General Meeting, if the number of the members of the Supervisory Board has fallen below three.
- 3.3. If the mandate of the Chairman is terminated, the Supervisory Board shall elect a new chairman, and the general management of the Company or any member of the Supervisory Board is entitled to convene a board meeting.
- 3.4. The Chairman of the Supervisory Board or the Supervisory Board Member appointed by the Chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as a permanent invitee.
- 3.5. The chairman of the Supervisory Board organizes the work of the Supervisory Board and ensures the efficient operation of the body. This shall include in particular the following:
- a) convening in writing the meeting of the Supervisory Board at least 5 business days prior to the date of the meeting—except in case of urgent decisions;
 - b) providing for the submission of the proposals and the keeping of the minutes;
 - c) chairing the Meeting, ordering voting; and
 - d) the chairman of the Supervisory Board, or if he or she is prevented from acting, a member appointed by the chairman of the Supervisory Board presenting the opinion of the Supervisory Board at the General Meeting concerning the proposals submitted to the General Meeting;
 - e) within ten days of the Supervisory Board's meeting, submitting to the Hungarian Central Bank - and, within 15 (fifteen) days of the Supervisory Board's meeting, to the Savings Cooperatives Integration Organization [SZHISZ, that is the Szövetkezeti Hitelintézetek Integrációs Szervezete] and the integrational business management organization - the minutes, proposals and reports pertaining to the agenda item, discussed by the Supervisory Board, the subject of which is the material breach of the Company's internal policies or major infringement observed in the management of the Company.

4. Competence and duties of the Supervisory Board:

- 4.1. The Supervisory Board shall inspect the management of the Company. Consequently, it may ask for reports or clarification from the members of the Board of Directors and the employees of the Company, may examine the books and documents of the Company, or have them examined by an expert. The Company shall ensure that the Supervisory Board has access to the information on the risks threatening the credit institution, the risk control function and the opinion of external experts. Any member of the Supervisory Board may initiate the preparation of a report, or may ask for clarification at the meeting of the Supervisory Board orally, or outside of a meeting in writing, in a request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The requested report or clarification shall be sent in writing to the chairman of the Supervisory Board within 15 days of the meeting of the Supervisory Board or the receipt of the written request. During its work, the Supervisory Board may use the services of an external expert at the expense of the Company, if necessary and justified. The Supervisory Board shall continuously get informed on the performance of the annual plan approved by the General Meeting, for which the Board of Directors shall provide the necessary information.
- 4.2. The Supervisory Board shall review the Company's report prepared in accordance with the International Financial Reporting Standards ("IFRS"), the recommendation concerning the utilization of results after tax, and any proposals concerning an issue within the competence of the General Meeting. The chairman of the Supervisory Board shall provide information on the results of the review. Without knowledge of the Supervisory Board's written report, the General Meeting may not adopt a valid resolution on the report prepared in accordance with the IFRS and the utilization of results after tax.
- 4.3. The duties of the Supervisory Board shall include – in addition to the above - particularly:
- 4.3.1. ensuring that the Company has a monitoring system that is suitable for comprehensive and effective operation;
 - 4.3.2. evaluating the operation of the financial reporting system and making proposals for necessary measures;
 - 4.3.3. making proposals to the General Meeting as to the audit organization to be appointed and the remuneration thereof, as well as to the auditor and the remuneration thereof based on the initiation of the management and the recommendations of the Audit Committee;
 - 4.3.4. monitoring the enforcement of the professional criteria as well as requirements related to conflict of interest and independence towards the auditor, performing tasks related to the cooperation with the auditor, monitoring the services provided by the auditor for the Company in addition to the audit of the Company's financial statements, prepared in accordance with the Accounting Act, and making proposals for the Board of Directors to take measures, where necessary;
 - 4.3.5. evaluation of the report prepared in accordance with the International Financial Reporting Standards ("IFRS") and monitoring of the auditing process;
 - 4.3.6. auditing the Company's annual and interim financial reports (including the consolidated reports);
 - 4.3.7. managing the internal audit organization in the framework of which:
 - a) the Supervisory Board shall accept the annual audit plan of the internal audit,
 - b) discuss the reports prepared by the internal audit organization at least every six months and control the implementation of the required measures.
 - c) If necessary, the Supervisory board shall hire an external expert to support the work of the internal audit organization,
 - d) shall make a proposal for changing the headcount of the internal audit;
 - 4.3.8. preparing recommendations and proposals on the basis of the findings of audits conducted by the internal audit organization;
 - 4.3.9. shall continuously supervise and monitor compliance of the application of methods and systems applied by the Bank in order to comply with the capital requirements set forth in the legislation via Internal Audit;
 - 4.3.10. shall continuously monitor and evaluate at least once a year application of the subsystems of the internal defence lines – outside the Internal Audit (risk management, compliance function);

- 4.3.11. discussing the Corporate Governance Report;
- 4.3.12. assisting the work of the Board of Directors for the proper auditing of the financial reporting system;
- 4.3.13. accepting the group-level Remuneration Policy.
- 4.4. The Supervisory Board shall determine the remuneration of the members of the Board of Directors who perform their duties within the scope of employment relationship (except for honorarium).
- 4.5. The Supervisory Board shall supervise the remuneration of managers liable for internal audits, compliance and risk management.
- 4.6. The Supervisory Board shall be entitled to determine additional control tasks for the Internal Audit with regard to the annual plan.
- 4.7. Decisions on the establishment and termination of the employment relationship of the leaders of the internal audit organization and its employees as well as on the calculation of their remuneration require the prior consent of the Supervisory Board.
- 4.8. The Supervisory Board shall act as a body. The Supervisory Board may assign the relevant supervisory tasks to any of its members, and may share supervision amongst its members on a permanent basis. Sharing supervision does not affect the responsibility of the member of the Supervisory Board or his or her right to expand the supervision to other activities falling under the supervisory tasks of the board.
- 4.9. If during its operation, the Supervisory Board identifies a fact or omission in breach of a legal provision, the Articles of Association or the resolution of the General Meeting, it shall immediately notify the Board of Directors thereof. If the Supervisory Board believes that the activity of the Board of Directors or the general management infringes the law, the Articles of Association or the resolutions of the General Meeting or is against the interests of the Company or the shareholders in any other manner, the Supervisory Board shall convene the extraordinary General Meeting of the Company and shall make a proposal regarding the agenda of the same.
- 4.10. The Supervisory Board shall establish its own rules of procedure in the framework of the Articles of Association, which shall be approved by the General Meeting.
- 4.11. The Supervisory Board and/or its chairman may request in writing via the chairman of the Board of Directors that the Meeting of the Board of Directors be convened and may propose adding certain items to the agenda.

5. Rights and obligations of the members of the Supervisory Board

- 5.1 The members of the Supervisory Board may exercise their rights and duties in person, no representation may be accepted.
- 5.2 The members of the Supervisory Board shall be independent from the Board of Directors of the Company and shall not be given orders in the course of their activity.
- 5.3 The members of the Supervisory Board attend the General Meetings in a consultative capacity.
- 5.4 The members shall treat information related to the matters of the Company as business secret.
- 5.5 Members of the Supervisory Board shall comply with the legal provisions on the prohibition of insider dealing. The information—relating to the Company's operation and its clients—that became known to Members of the Supervisory Board in connection with their position shall not be used or disposed, or made accessible to unauthorized persons.

- 5.6. Members of the Supervisory Board shall make a declaration to the Company's Board of Directors with regards to the shares owned by him or her and issued by the Company.
- 5.7. Once the transaction is completed, the Member of the Supervisory Board shall promptly make a declaration to the MNB in case s/he conducted a transaction—either in person or by means of representation—with regards to shares issued by the Company, or financial assets the value of which is dependent on the value or price of the aforementioned share. The members of the Supervisory Board shall inform the Company of such transactions immediately but no later than within two days, if it exceeds the transaction value specified in the Act on the Capital Market.

The declaration shall include the following:

- name of the Board Member,
- reason for the declaration obligation,
- name of the issuer, that is the Company,
- name of the financial asset involved in the transaction,
- quantity of the financial asset involved in the transaction,
- price of the financial asset involved in the transaction,
- nature of the transaction (such as sales or purchase),
- the time and date and the venue of the transaction,
- name of the investment company, credit institution conducting the transaction.

- 5.8. The members of the Supervisory Board shall immediately notify MNB, if
 - a) they are elected as another financial institution's Board Member or Supervisory Board Member, or cease to have such positions,
 - b) acquires an influential holding in a business, or ceases to have such holding,
 - c) criminal proceedings were brought against him/her under Article 137(6) of the Act on Credit Institutions.
- 5.9. The members of the Supervisory Board shall be liable towards the Company for damage caused by breach of the supervisory obligation in accordance with the civil law.

6. The operation of the Supervisory Board

- 6.1. The Supervisory Board shall prepare an annual or semi-annual work plan, and shall carry out its activities in accordance with such plan.
- 6.2. The Chairman may invite the representative of MNB to the meetings of the Supervisory Board. The Chairman of the Company's Board of Directors, the CEO and the permanent auditor shall be invited to the meetings of the Supervisory Board.
- 6.3. The Supervisory Board shall hold its meetings as necessary, but at least every 3 months. The Chair of the Supervisory Board shall be entitled to convene the meetings of the Supervisory Board anytime. Any member of the Supervisory Board is entitled to request the Chair to convene the meeting of the Supervisory Board in writing, indicating the reason for and the goal of the meeting. Within 10 (ten) days after receiving the request, the chair shall arrange the organization of the meeting at a date within 30 (thirty) days. If the Chair fails to comply with the request, the member is also entitled to convene the meeting. The Chairman of the Board of Directors or two members of the Board of Directors shall also be entitled to initiate the convening of the Supervisory Board.
- 6.4. The meetings shall be convened by the chairman via electronic mail (e-mail), document or written invitation forwarded at least 5 business days prior to the date of the meeting. The integrational business management organization and the Integration Organization shall be notified of the meeting of the Supervisory Board in advance, concurrently with the sending of the invitation to the members

of the Supervisory Board, but at least 5 (five) business days prior to the meeting by sending them the materials as prescribed in this point. Referring to each agenda, the proposal and the related materials (if applicable) shall be attached and sent by e-mail or in printed form to the Members of the Supervisory Board, the Integrational Business Management Organization and the Integration Organization. The Integration Organization may request that the Company, where appropriate, within 3 business days from the receipt of the notification, prepare a written submission for the agenda items it has specified. With regards to issues not included in the agenda, the Meeting shall be entitled to adopt a resolution only when all Members, or the representative of the Integration Organization or integrational business management organization is present at the Meeting — or participates by means of phone or video conference (by means of electronic communication) — , and consents to the discussion of the issue that is not included in the agenda. The representatives of integrational business management organization and the Integration Organization shall be entitled to attend the Meeting of the Supervisory Board in advisory capacity. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached.

- 6.5. Based on the decision of the Chairman of the Supervisory Board, experts and those whose presence is necessary for the agenda may participate at the meetings of the Supervisory Board with consultation rights in addition to the members.
- 6.6. The Chairman of the Board of Directors of the Company, the CEO or his agent and the permanent auditor is entitled to attend the meeting of the Supervisory Board in a consultative capacity. At the request of the Supervisory Board, the permanent auditor shall be obliged to attend the meeting of the Supervisory Board. The Supervisory Board shall add the items suggested by the permanent auditor on the agenda.
- 6.7. The quorum of the Supervisory Board shall be the presence of two third of its members, but at least 3 (three) members. The Supervisory Board shall pass resolutions by simple majority, open voting. Before decision-making, upon request by any member, the chairman may order a secret vote. The Supervisory Board does not have a quorum if the Integration Organization and the Integrational Business Management Organization were not invited to the meeting of the Supervisory Board 5 business days prior to the meeting by sending the materials and proposals related to the items on the agenda and the invitation.
- 6.8. All meetings of the Supervisory Board shall be recorded in writing, which shall include the following:
 - place and date of the meeting of the Supervisory Board,
 - the names of the Supervisory Board members present,
 - name of the persons submitting proposals,
 - the proposals presented,
 - the decisions taken and protests raised against the decisions,
 - percentage of votes, opposing votes.

The minutes shall contain all facts or opinions proposed by the members. All minority opinions or different opinions and objections shall also be recorded, or shall attached to the minutes in writing. Results of votes and opinions of persons who voted against shall be recorded. Supervisory Board members may request that their opinion be recorded in the minutes verbatim. The minutes shall be signed by the Chairman of the Meeting and two attending Supervisory Board members. The minutes of the meeting of the Supervisory Board shall be sent to all Supervisory Board members (regardless whether he/she was present at the meeting or not) within 15 (fifteen) days of the date of the meeting.

Supervisory Board members may also participate at the meetings of the Supervisory Board by means of electronic communication. The detailed rules of the same are set out in Section 6.11.

- 6.9. The Supervisory Board may only adopt valid resolutions outside of the Meeting — that is without convening and holding a Meeting, via telephone, facsimile, electronic messages or similar ways — if the votes of more than half of the Supervisory Board Members are recorded in a private document of

probative value, which is forwarded to the Company's registered seat within two business days — following the date on which the call for the adoption of a resolution outside of a Meeting and the relevant documents (the proposals and voting ballots in particular) are sent to the Supervisory Board Members. From what was set forth in point 6.4, the provisions concerning the prior notification of the Integration Organization and the integrational business management organization shall also be applicable mutatis mutandis in cases of resolutions adopted outside of the Meetings, provided that a panel Meeting shall be held upon the request of the integrational business management organization or the Integration Organization. The Supervisory Board cannot adopt any valid resolution if the above obligations are breached. Relevant documents shall be made available to the Supervisory Board Members simultaneously with the notification of the Integration Organization and integrational business management organization; however, the invitation for decision-making process shall be sent two business days before the earliest possible date on which a resolution may be passed with respect to the above regulations.

- 6.10. Resolutions adopted by the Supervisory Board shall be archived with the serial number and year indicated. The administrative tasks associated with the operation of the body shall be carried out by the Company Management.
- 6.11. All members of the Supervisory Board and persons invited to the meetings are entitled to participate at the meeting of the Supervisory Board via conference call or any other similar means of communication, if the persons present at the meeting are able to communicate with each other directly, at the same time. Such participation at the meeting shall be considered as participation in person and shall be recorded in the minutes of the meeting.

The Supervisory Board of TakarékJelzálogbank Nyrt. accepted the amendment to these Rules of procedure by its resolution No. .../2020. (.....) in accordance with the above, in a consolidated version, and the General Meeting of the Company approved it by its resolution No. .. /2020.), and it enters into force upon entry into force of the Articles of Association approved on the General Meeting of the Company held on 28 April 2020.

Clause of entry into force:

These Rules of procedure shall enter into force on, upon entry into force of the Articles of Association approved on the General Meeting of the Company held on 28 April 2020.

Budapest, 2020

dr. Zsolt Harmath sgd.
the chairman of the Supervisory Board



PROPOSAL

to the Item No. 10 of the Agenda

**Authorization of the Board of Directors to acquire own shares
(in Hungarian: „*saját részvény*”)**

PROPOSAL

Authorization of the Board of Directors to acquire own shares

By virtue of Resolution No. 9/2019. (04.25.) passed by the Annual General Meeting of Takarék Mortgage Bank Plc („Company”) on 25 April 2019, the General Meeting authorized the Board of Directors to acquire the Company's own shares (treasury shares, “*saját részvény*” in Hungarian), pursuant to Section 3:223 Subsection 1 of the Act V of 2013 on Civil Code. The authorization given to the Board of Directors is valid for 18 months.

Acquiring own shares is preferable in the forthcoming period in the interest of preserving the stability of the share exchange rate and executing the business strategy of the Company.

Based upon the above, the Board of Directors of the Company proposes that the General Meeting resolve to reissue the authorization for the Board of Directors, valid for 18 months, including specification of the type, class, number, par value, lowest and highest consideration to be paid for the shares, pursuant to Section 3:223 Subsection 1 of Act V of 2013 on Civil Code.

The Supervisory Board of Takarék Mortgage Bank Co. Plc. agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION:

The General Meeting of Takarék Mortgage Bank Co. Plc. authorizes the Board of Directors that pursuant to the provisions of Section 3:223 Subsection 1 of Act V of 2013 on Civil Code ("Civil Code to acquire the Company's own shares (treasury shares, "saját részvény" in Hungarian), subject to the following conditions:

1. *Type, par value and amount of treasury shares that can be acquired:*
 - *Series 'A' ordinary shares with a par value of HUF 100;*
 - *Series 'B' preferential shares with a par value of HUF 100;*
 - *Series 'C' ordinary shares with a par value of HUF 1.000;**the maximum amount of which in total with regard to the same date shall not exceed 25 per cent of the total nominal value of the share capital.*
2. *Purpose of acquisition of treasury shares:*
 - *preserving the stability of the share exchange rate and executing the business strategy of the Company.*
3. *Method of acquisition of own shares:*
 - *On the Budapest Stock Exchange or on the OTC market, for consideration.*
4. *The minimum and maximum amount of consideration payable for one own share:*
 - *the minimum purchase price of "A" and "B" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 125% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction;*
 - *the minimum purchase price of "C" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 1250% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction.*
5. *This authorization shall be valid for 18 months from the date of this resolution.*
6. *Other conditions of acquisition of own shares shall be governed by the relevant provisions of the Civil Code.*