Takarékbank Zrt.

Separate Financial Statements
and
Independent Auditor's Report

December 31, 2019

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarékbank Zrt.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the financial statements of Takarékbank Zrt.. (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 2,167,752–, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net loss for the year of MHUF 9,849 –, separate statement of changes in shareholder's 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.

Emphasis of Matter

We draw attention to section 3.36. (Comparative data due to mergers) in the notes to the financial statements, which indicates that the reporting period includes also the financial data of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél

TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.). The comparative period figures of the Separate Financial Statements contain only the financial data of Mohácsi Takarék Bank Ltd. Section 34. in the notes to the financial statements contain the aggregated financial data of the entities merging during the reporting period as at 31 December 2018 to ensure comparability of periods. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on collectively assessed loans	
(See Section 18 notes to the Financial Statements for the details) As at December 31, 2019 the Bank shows net value of loans to customers in an amount of MHUF 1,416,016 (gross amount is MHUF 1,457,030) in connection with MHUF 41,014 provision has been recognized. The calculation of expected credit losses on loans requires application of professional judgement and use of highly subjective assumptions by management in case of the application of portfolio based collective provisioning models. The most significant assumptions applied in provisioning calculation are the followings: - IFRS9 credit risk staging methodology and application, - probability of default, - exposure at the default and - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of expected credit loss of loans was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - testing design and implementation 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 business report of the Bank for 2019. 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 also include assessing whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, and to express an opinion on the above and on whether the business report is consistent with the financial statements.

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. 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 business report 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 Shareholder on 29 April 2019 and our uninterrupted engagement has lasted for 3 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 8 May 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 which have not been disclosed in the financial statements.

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

Budapest, 8 May 2020

....

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

Takarékbank Private Limited Company by Shares

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

Table of Contents **Pages**

GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Béla Hetzmann

Members of the Board of Directors
Ádám Egerszegi
Levente László Szabó
dr. EdinaTófeji
János Zoltán Bogdán
György Schamschula
Zoltán Váradi

Responsible person for the control and management of accounting services:
Györgyi Aho, PM registration number: 201647

Auditor company
Deloitte Auditing and Consulting Ltd.

Statutory registered auditor
Gábor Molnár

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 consolidation companies.

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

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

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

	Notes	2019	2018
Interest income	4	16,346	1,593
Interest expense	4	(1,532)	(151)
Net interest income		**14,814**	**1,442**
Fee and commission income	5	17,613	828
Fee and commission expense	5	(5,854)	(245)
Net fee and commission income		**11,759**	**583**
Profit from foreign exchange transactions	6, 25	676	39
(Loss)/Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	7	(1,528)	35
Gains on financial assets and liabilities held for trading, net	8	398	-
Gains/(Loss) on non-trading financial assets mandatorily at fair value through profit or loss, net		125	(26)
(Loss) from hedge accounting, net		(391)	-
Net trading result		**(720)**	**48**
Other operating income	9	987	34
Other operating expenses	9, 25	(497)	(6)
Operating income, net		**26,343**	**2,101**
Provisions	25	(1,300)	(44)
Impairment on financial assets not measured at fair value through profit or loss		(4,221)	(50)
Impairment or (reversal) of impairment on non-financial assets		355	(2)
General and administrative expenses	10, 11	(31,094)	(1,626)
Adjustment (loss), net		(80)	-
Impairment or (reversal) of impairment of investments in subsidiaries, joint ventures and associates	19	(26)	-
(Loss)/Profit before tax		**(10,023)**	**379**
Income tax expense	12	(174)	(75)
(Loss)/Profit for the year		**(9,849)**	**304**

*The base period figures of the Separate Statement of Profit or Loss contain only the profit or loss of Mohácsi Takarék Bank Ltd.
The reporting period includes also the profit or loss of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.) from the merger to 31 December 2019.
The comparative data see in Note 34.

All figures in tables are in HUF million except otherwise noted

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

	Notes	2019	2018
(Loss)/Profit for the year		(9,849)	304
Other comprehensive income	**13**	**(816)**	**(42)**
Items that will not be reclassified to profit or loss:		**(359)**	**64**
Fair value changes of equity instruments measured at fair value through other comprehensive income		(285)	70
Income tax relating to items that will not be reclassified	13	(74)	(6)
Items that may be reclassified to profit or loss		**(457)**	**(106)**
Debt instruments at fair value through other comprehensive income		(457)	(119)
Income tax relating to items that may be reclassified to profit or (-) loss	13	-	13
Total comprehensive (loss)/income for the year		**(10,665)**	**262**

*The base period figures of the Separate Statement of Other Comprehensive Income contain only the other comprehensive income of Mohácsi Takarék Bank Ltd.
The reporting period includes also the other comprehensive income of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.) from the merger to 31 December 2019.
The comparative data see in Note 34.

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2019*

	Notes	31 December 2019	31 December 2018	1 January 2018
Assets				
Cash, cash balances at central banks and other demand deposits	14	105,265	9,453	950
Financial assets held for trading	15	13	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	16	3,064	667	911
Financial assets at fair value through other comprehensive income	17	71,396	2,890	8,327
Financial assets at amortised cost	18	1,927,012	39,931	27,452
Derivatives – Hedge accounting	29	163	-	-
Investments in subsidiaries, joint ventures and associates	19	32,173	-	-
Tangible assets	20, 22	14,699	556	557
Intangible assets	21	6,677	65	70
Tax assets	12	2,227	-	8
Other assets	23	5,063	10,267	380
Total assets		**2,167,752**	**63,829**	**38,665**

*The figures of the Separate Statement of Financial Position as at 1 January 2018 and as at 31 December 2018 contain only the assets of Mohácsi Takarék Bank Ltd.
The reporting period includes also the assets of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.)
The comparative data see in Note 34.

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2019*

	Notes	31 December 2019	31 December 2018	1 January 2018
Liabilities				
Financial liabilities held for trading	15	13	-	-
Financial liabilities measured at amortised cost	24	2,010,329	58,488	34,442
Derivatives – Hedge accounting	29	1,495	-	-
Provisions	25	7,504	74	30
Tax liabilities	12	-	52	1
Other liabilities	26	24,951	1,545	774
Total liabilities		**2,044,292**	**60,159**	**35,247**
Equity				
Share Capital	27	100,260	2,092	2,092
Share premium	27	21,647	-	-
Accumulated other comprehensive income	27	458	16	58
Retained earnings	27	9,885	651	651
Other reserve	27	1,059	607	607
Treasury shares (-)		-	-	-
Profit or loss for the year	27	(9,849)	304	-
Total equity		**123,460**	**3,670**	**3,408**
Total equity and total liabilities		**2,167,752**	**63,829**	**38,655**

*The figures of the Separate Statement of Financial Position as at 1 January 2018 and as at 31 December 2018 contain only the financial data of Mohácsi Takarék Bank Ltd.
The reporting period includes also the financial data of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.)
The comparative data see in Note 34.

Budapest, 8 May 2020.

Takarékbank Zártkörűen Működő
Részvénytársaság
1.

Antal Martzy
Deputy CEO

Péter Darazsacz
Managing Director

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 or loss for the year		(9,849)	304
Non-cash adjustments to net profit from:			
Depreciation and amortization		1,840	48
Impairment and provision for credit loss expense		(3,380)	283
Impairment and provision/ (Release of other provision)		2,643	-
Profit/Loss on tangible assets derecognized		5	1
Interest expense on the lease liability		(34)	-
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		(953)	-
Fair value adjustments on financial assets measured at fair value through profit or loss		125	26
Operating profit or loss before change in operating assets		**(9,853)**	**662**
Decrease/ (-) Increase in operating assets			
Changes in non-trading financial assets mandatorily at fair value through profit or loss		(303)	218
Changes in financial assets at amortised cost		(728,049)	(12,718)
Changes in other assets		12,217	(9,879)
Increase/ (-) Decrease in operating liabilities			
Changes in financial liabilities at amortised cost		328,481	12,678
Changes in other liabilities		8,572	706
Net cash flow from operating activities		**(388,935)**	**(8,332)**

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 investing activities			
Proceeds from sales of tangible and intangible assets		1,854	(38)
Purchase of tangible and intangible assets		(14,672)	(6)
Net cash outflow from investing activities		**(12,818)**	**(44)**
Cash flow from financing activities			
Repayment of leasing liabilities		(706)	(2)
Repayment of long term loans		27,362	11,370
Sale of debt instruments		-	5,511
Capital increase		39,908	-
Acquisition of shares in subsidiaries, joint ventures and associates		(1,279)	-
Net cash outflow from financing activities		**65,286**	**16,879**
Increase/ (-) Decrease in cash and cash equivalents		(336,467)	8,503
Change in cash due to merger		432,279	-
Opening balance of cash and cash equivalents		9,453	950
Closing balance of cash and cash equivalents		**105,265**	**9,453**
Breakdown of cash and cash equivalents:			
Cash		24,853	495
Balances with the National Bank of Hungary		-	-
Due from banks with a maturity of less than 90 days		80,412	8,958
Closing balance of cash and cash equivalents		**105,265**	**9,453**
Supplementary data			
Interest received		*16,346*	*1,593*
Interest paid		*(1,532)*	*(151)*

All figures in tables are in HUF million except otherwise noted

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

	Share Capital	Share premium	Accumulated other com-prehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
Opening at 1 January 2019	**2,092**	**-**	**58**	**651**	**607**	**-**	**3,408**
Profit for the year	-	-	-	304	-	-	304
Other comprehensive income for the year	-	-	(42)	-	-	-	(42)
General reserve formation	-	-	-	(10)	10	-	-
Closing at 31 December 2018	**2,092**	**-**	**16**	**945**	**617**	**-**	**3,670**
Opening at 1 January 2019	**2,092**	**-**	**16**	**945**	**617**	**-**	**3,670**
Loss for the year	-	-	-	(9,849)	-	-	(9,849)
Other comprehensive income for the year	-	-	(816)	-	-	-	(816)
Release of general reserve	-	-	-	617	(617)	-	-
Derecognition of equity instru-ments at fair value	-	-	(1,416)	1,416	-	-	-
Increase from merger	58,260	21,647	2,674	6,907	1,059	-	90,547
Capital increase	39,908	-	-	-	-	-	39,908
Closing at 31 December 2019	**100,260**	**21,647**	**458**	**36**	**1,059**	**-**	**123,460**

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The separate financial statements of Takarékbank Plc. (hereinafter Bank, Takarékbank, Company) for the year ended 31 December 2019 were authorized for issue in with a resolution of the Board of Directors on 8 May 2020. The final approval on the separate financial statements is provided by the General Meeting.

Name:	Takarékbank Zrt.
Seat:	1117 Budapest, Magyar tudósok körútja 9. G. ép.
Website address:	www.takarek.hu
Mailing address:	Budapest, Pf.:1942
Phone number:	06-1-311-3110
Registration number:	01-10-140275
Tax number:	14479917-4-44
KSH statistical number sign:	14479917-6419-114-01
Year of foundation:	2008

Chairman of the Supervisory Board:	Béla Hetzmann
Chairman of the Board:	József Vida

Members of the Supervisory Board:	Katalin Vargáné Králik
	András József Tölgyes
	Viktor Iván Katona
	dr. András Csaba Bencze

Members of management:	József Vida, Chief Executive Officer
	Ádám Egerszegi, Deputy Chief Executive Officer
	Levente László Szabó, Deputy Chief Executive Officer
	Péter Magapatona, Deputy Chief Executive Officer
	Antal Martzy, Deputy Chief Executive Officer
	Attila Mészáros, Deputy Chief Executive Officer

The Integration of Cooperative Credit Institution (hereinafter: Integration) was a cooperation of 16 privately owned cooperative credit institution – savings bank, credit union, and smaller bank – in the beginning of the year 2019, then the implemented fusion at 30 April 2019 and 31 October 2019 as a result decreased the number of the cooperative credit institutions onto two credit institutions, as a result of a regulatory change during the year became the related parties, and the Holding Szövetkezet as a members of the Integration.
On October 31, 2019, the fifth largest credit institution in the country entered the market following the national merger of Saving Cooperatives and Takarék Commercial Bank. Through the mergers, the number of the national Takarékbank's customers has grown to more than 1.1 million, and with 750 branches and 15 Takarék mobile bank branches, it operates the largest nationwide branch network.

With the merger of the 11 savings cooperatives and 2 banks, the almost five-year process has ended, during which the former nearly 120 savings cooperatives have now become the only universal commercial bank with national coverage. In the last merger, the 3A Takarékszövetkezet, the Békés Takarék Szövetkezet, the CENTRÁL TAKARÉK Szövetkezet, the Dél TAKARÉK Szövetkezet, the Fókusz Takarékszövetkezet, the Hungária Takarék Takarékszövetkezet, the KORONA TAKARÉK Takarékszövetkezet, the M7 TAKARÉK

All figures in tables are in HUF million except otherwise noted

Szövetkezet, the Nyugat Takarék Szövetkezet, the Pátria Takarékszövetkezet, the TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd. and Takarékbank Ltd., which has been operating regionally until now, participated. Takarékbank Ltd. took over the customers, employees, entire branch network, deposit-loan and contract portfolios of all credit institutions.

Takarékbank Ltd., as the universal commercial bank of the Cooperative Credit Institution Integration, carries out the following activities in accordance with the provisions of the Act on Credit Institutions and Financial Enterprises (Hpt.) and the legislation related to financial services, within the framework thereof, with the permission of the Central Bank:

Activities under TEAOR'08:

- other monetary intermediation,
- other information technology services,
- financial leasing,
- other lending,
- other financial intermediation nec,
- securities and commodity contracts brokerage,
- other financial auxiliary activities,
- activities of insurance agents and brokers,
- other activities auxiliary to insurance and pension funding,
- buying or selling of own real estate,
- renting and operating of own or leased real estate,
- accounting, bookkeeping and auditing activities, tax consulting,
- business and other management consultancy activities.

Takarékbank Ltd. is entitled to carry out business activities in accordance with Hpt. and Bszt.:

- collecting deposits and accepting other repayable funds from the public,
- granting credit and cash loans,
- financial leasing,
- provision of payment services,
- issuing electronic money,
- issuing a paper-based cash alternative payment instrument (such as a paper-based traveler's check, bill of exchange) or providing a related service that does not qualify as a payment service,
- undertaking guarantees and other banking obligations, trading in currency, foreign exchange, excluding currency exchange activities, with a bill of exchange or check for own account or as a commission agent,
- intermediation of financial services, in the framework of which mortgage credit intermediation activity as a dependent priority intermediary,
- escrow service, safe deposit box service, credit reference service,
- receivables purchase activity,
- currency exchange activity,
- own account trading in accordance with Bszt. with regard to financial instruments pursuant to Section 6,
- investment consultation in accordance with Bszt. within the financial instruments referred to in Section 6 a), only for spot transactions concluded in respect of government securities issued by the Hungarian State.

Takarékbank Ltd performs the following activities on the basis of a report:

- insurance intermediation, Hpt. Section 7 (3) c) and Bszt. Section 111-116 on mediation activity.

Other business activities:

- “an activity aimed at utilizing collateral or collateral or participating in sales in order to reduce or eliminate a loss arising from a financial service” in accordance with the Section 7 (3) (i) on Credit Institutions Act.

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 Ac-counting (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. First-time Adoption of International Financial Reporting Standards

The separate financial statements of the Bank are the first annual financial statements in which the Bank adopts IFRSs for the reporting date 31 December 2019.
In the previous periods were its bookkeeping in accordance with the Hungarian Accounting Standards. 1 January 2018 is the date of the transition under IFRS 1, which day the Bank were prepared the comparative period data based on IFRS.

2.3. 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.

2.4. Basis of measurement

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

2.5. Change in accounting policies

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

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

- **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 9 "Financial Instruments** - Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement - adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 - 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019).

2.5.2. 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 remeasurement the lease liability. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The standard elects to apply recognition exemptions for leases of short term and low value assets. However, a lessor classifies leases as either a finance lease or an operating lease.

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Categories of financial instruments

The Bank groups the recognised financial assets as follows:
- Cash and cash equivalents
- Financial assets held for trading
  - Derivatives
  - Securities kept in trading book
- Non-trading financial assets mandatorily at fair value through profit or loss
  - Loans and advances to customers at fair value
  - Open-end shares in investment funds, stock exchange shares
- Financial assets at fair value through other comprehensive income
  - Securities at fair value through other comprehensive income
- Financial assets at amortised cost:
  - Due from banks
  - Loans and advances to customers at amortised cost
- Derivatives – Hedge accounting

The Bank groups the recognised financial liabilities as follows:
- Financial liabilities held for trading
- Derivatives
- 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. Financial assets held for trading

Securities at fair value through profit or loss are held within a business model whose objective is not to hold securities in order to collect contractual cash flows or not to hold securities both collecting contractual cash flows and selling securities. Securities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.
Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term depending on the market price.

3.4. Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in rice 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.

3.5. 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.
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.

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.
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.

3.6. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses (Fair value difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on this items are recognized consolidated statement of profit or loss. All investments in equity instruments that are not held for trading are classified as at equity 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 separate statement of profit or loss.

3.7. 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.
Loans and advances to customers measured at amortized cost are initially recognized at fair value at the date of settlement by Bank, increased or decreased by transaction costs that are directly attributable to the acquisition or origination of the receivables.
Loans and placements with other banks are measured 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.

3.8. Restructuring of loans

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank doesn't measure any significant gain or losses on the restructuring loans.
The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is

set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
In case of renegotiated loans, the classification of the clients (and eventually the impairment) 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.

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.

3.9. 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 creditimpaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) impairment is recognised in amount of lifetime expected credit loss. An asset 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.

3.10. 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 quantitative discount;
b) any costs directly attributable for the assets to be ready their intended use:
    - costs of employee benefits,
    - costs of site preparation,
    - delivery and handling costs,
    - insurance fees,

  - installation and assembly costs,
  - costs of testing,
  - professional fees,
  - costs of parts and maintenance.

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.

3.11. 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.
- 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

All figures in tables are in HUF million except otherwise noted

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;
- 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 recognise 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.

3.12. 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.

3.13. 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.

3.14. 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 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.
The tax rates and tax laws in effect at the balance sheet date are used to determine the current tax liability.

3.15. 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.

3.16. 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.

3.17. 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.

3.18. 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.

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).

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.

3.19. Financial guarantee contracts

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

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

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.
Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Credit loss expense'.

3.20. Derecognition of financial instruments

3.20.1. 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.

3.20.2. Derecognising of financial liabilities

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

3.21. 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.

3.22. Employee benefits

3.22.1. 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.

3.22.2. 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.

3.23. 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.

3.24. Interest income and interest expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.
The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.
Interest income and expenses related to financial instruments are separated by the Bank based on each financial instruments category.
Interest income and interest expenses are accounted on a gross basis by the Bank.

3.25. 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 recognised in profit or loss.
Fees and commission incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.26. Contingent liabilities / contingent assets

The Bank has recorded 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 recorded 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.

3.27. 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 is 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.

3.28. 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.

3.29. Foreign currency translation

Items included in the financial statements in foreign currencies are translated to the respective functional currencies of the Bank. Transactions in foreign currencies are like transactions that set in foreign currencies or have/had to paid in foreign currencies.
At initial recognition the Bank are translated transactions in foreign currencies to the respective functional currency at the valid NBH rate on the date of the transaction.
At the end of the reporting periods:

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

3.30. 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.

3.31. Bank tax

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.

3.32. Significant accounting judgements and estimates

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

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

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

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 3.12)

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.

3.33. 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.

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

There were no regulatory changes in the year 2019 which would have material impact on the Bank's activity.

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.

3.35. Change in estimates

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

3.36. Comparative data due to mergers

The base period figures of the Separate Financial Statements contain only the financial data of Mohácsi Takarék Bank Ltd.
The reporting period includes also the financial data of the entities merging on 30 April 2019 (Pannon Takarékbank, B3 Takarékszövetkezet) and the entities merging on 31 October 2019 (3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd.).
The comparative data see in Note 34.

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2019	2018
Interest income		
Financial assets held for trading	6	-
Non-trading financial assets mandatorily at fair value through profit or loss	18	31
Financial assets at fair value through other comprehensive income	274	115
Financial assets at amortised cost	15,983	983
Derivatives – Hedge accounting, interest rate risk	55	464
Interest income on financial liabilities	10	-
Total	**16,346**	**1 593**

	2019	2018
Interest expense		
Financial liabilities held for trading	1	5
Financial liabilities measured at amortised cost	1,321	146
Derivatives – Hedge accounting, interest rate risk	177	-
Other liabilities	33	-
Total	**1,532**	**151**

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	2019	2018
Fee and commission income		
Account management fees	10,637	566
Fee and commission income related to bank cards	2,274	94
Lending fees income	1,060	99
Agency fee income	3,507	59
Other	135	10
Total	**17,613**	**828**

	2019	2018
Fee and commission expense		
Account management fees	1,052	107
Fee and commission expense related to bank cards	1,687	107
Lending fees expenses	861	24
Agency fee expense	2,248	-
Other	6	7
Total	**5,854**	**245**

6. PROFIT OR LOSS FROM FOREIGN EXCHANGE TRANSACTIONS

	2019	2018
FX transactions realized gains	568	38
FX transactions non-realized (loss)/gains	108	1
Profit from foreign exchange transactions	**676**	**39**

All figures in tables are in HUF million except otherwise noted

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

	2019	2018
Gains on derecognition of financial assets at fair value through other comprehensive income, net	29	43
Gains or (losses) on derecognition of financial assets at amortised cost, net	(1,557)	(8)
Total	**(1,528)**	**35**

8. GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

	2019	2018
IRS deals*	395	-
Other	3	-
Total	**398**	**-**

**IRS= Interest Rate Swap*

9. OTHER OPERATING INCOME AND EXPENSE

	2019	2018
Other operating income, net		
Result of a discontinued shares	2	-
Net profit on sold property and inventory	53	-
Rental income on property	37	1
Invoiced expenses and services*	585	4
Non-repayable assets received	3	11
Received compensation for damages	8	2
Other income for previous years	18	16
Other	281	-
Total	**987**	**34**

** Cost sharing income based on the framework of SLA settlement agreement among the members of the Bank group.*

All figures in tables are in HUF million except otherwise noted

	2019	2018
Other operating expense, net		
Provision on contingent liabilities	414	-
Donation	18	3
Damages	-	3
Other	65	-
Total	**497**	**6**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Staff costs	11,296	607
Rental fee	43	1
Depreciation of tangible assets	1,187	28
Depreciation of intangible assets	653	20
General and administrative costs	2,315	89
Marketing and advertising	281	22
Consultancy fees	4,527	46
IT costs	3,756	307
Banking tax	38	26
Other taxes and contributions	6,185	384
Insurance fees	48	3
Supervisory, authority fees	659	92
Other	106	1
Total	**31,094**	**1,626**

11. STAFF COSTS

	2019	2018
Wages and salaries	9,179	459
Wages contribution	1,842	112
Other personnel related payments	275	36
Total	**11,296**	**607**

Wages contribution is payable by the Bank based on gross wages and salaries paid to employees. The full-time headcount of the Bank at the end of the reporting period was 5,657 (2018: 87). The average annual full-time headcount in 2019 was 1,612.

All figures in tables are in HUF million except otherwise noted

12. INCOME TAX

	31 December 2019	31 December 2018
Current income tax	**-**	**(10)**
Corporate income tax	-	-
Deferred tax expense	**174**	**(65)**
Total	**174**	**(75)**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
The Act LXXXI of 1996 on Corporate Tax 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.

	31 December 2019	31 December 2018
Profit (loss) before tax	*(10,023)*	*379*
Calculated income tax (9%)	902	(34)
Items modifying the Hungarian Tax base	75	(41)
Effect of IFRS adoption	99	-
Effect of the reduction of accrued loss	(902)	-
Total	**174**	**(75)**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

31 December 2019	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Mergers effect	Deferred tax position in reserves
Items modifying corporate tax base	1,964	-	1,964	75	1,889	-
Effect of corporate tax of IFRS adoption	218	-	218	(92)	350	-
Effect of local business tax of IFRS adoption	-	-	-	191	(180)	-
Net deferred tax position	**2,182**	**-**	**2,182**	**174**	**2,059**	**-**

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	-	1	(1)	(14)	-
Effect of corporate tax of IFRS adoption	-	40	(40)	(40)	-
Effect of local business tax of IFRS adoption	-	11	(11)	(11)	-
Net deferred tax position	**-**	**52**	**(52)**	**(65)**	**-**

The data of the table as 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

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	**(359)**	**64**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(285)	70
Income tax relating to items that will not be reclassified	(74)	(6)
Items that may be reclassified to profit or loss	**(457)**	**(106)**
Debt instruments at fair value through other comprehensive income	(457)	(119)
Income tax relating to items that may be reclassified to profit or (-) loss	-	13
Total comprehensive income	**(816)**	**(42)**

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

The most part of Cash reserves are the bank account and term deposits at MTB Bank, the rest of it are the nostro accounts at other banks, cash on hand and the transfer account related to cash reserves.

	31 December 2019	31 December 2018	1 January 2018
Cash on hand	24,853	495	262
Other demand deposits	80,412	8,958	688
Total	**105,265**	**9,453**	**950**

All figures in tables are in HUF million except otherwise noted

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2019	31 December 2018	1 January 2018
Financial assets held for trading			
IRS transactions	13	-	-
Total	**13**	**-**	**-**

	31 December 2019	31 December 2018	1 January 2018
Financial liabilities held for trading			
IRS transactions	13	-	-
Total	**13**	**-**	**-**

16. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS K

	31 December 2019	31 December 2018	1 January 2018
Equity instruments	385	-	-
Loans*	2,679	667	911
Total	**3,064**	**667**	**911**

*Loans in non-trading financial assets mandatorily at fair value through profit or loss, which did not pass the SPPI tests criteria.

All figures in tables are in HUF million except otherwise noted

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018	1 January 2018
Equity instruments	732	275	201
Debt securities	70,664	2,615	8,126
National Deposit Insurance Fund Bond	-	2,615	-
Government Bonds	38,792	-	7,259
Credit Institution Bonds	17,312	-	867
Mortgage Bonds	14,560	-	-
Total	**71,396**	**2,890**	**8,327**

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
Garantiqua Hitelgarancia Ltd.	85
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	636
Szövetkezeti Hitelintézetek Integrációs Szervezete	10
SwIFT	1
Soltvadkert és Vidéke Tksz."fa"	-
Takarék Egyesült Szövetkezet	-
Dél Alföldi Szakképzési és Nonprofit Zrt.	-
ORIENT ZRT. "fa"	-
Agrárvállalkozási Hitelgarancia Alapítvány	-
Általános Közlekedési Hitelszövetkezet	-
Total	**732**

The Bank have been reported dividend of HUF zero in equity instruments at fair value through other comprehensive income during the reporting period.

During the reporting period, the Bank derecognised the shares of Takarék Mortgage Bank Plc. from its equity instruments at fair value through other comprehensive income. The shares were sold in accordance with the strategic plans, at fair value, so there was no effect on profit.

Shares	Fair value of shares at derecognition
Takarék Mortgage Bank Plc.	5,783
Total	**5,783**

All figures in tables are in HUF million except otherwise noted

18. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Debt securities	20,624	-	-
Loans at amortised cost gross	1,457,030	36,431	19,559
from: Retail	506,279	7,461	6,542
from: Corporate	861,692	16,396	13,006
from: Local government	89,059	12,574	11
Impairment on loans at amortised cost	(41,014)	(1,577)	(1,829)
Deposit and loans from banks gross	468,531	4,909	9,724
Impairment on deposit and loans from banks	(3)	(1)	(2)
Advances gross	22,341	(183)	-
Impairment on advances	(497)	(14)	-
Total	**1,927,012**	**39,931**	**27,452**

Impairment under collective and individual assessment:

31 December 2019	Stage 1	Stage 2	Stage 3	POC	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired assets	
Individual	-	-	9,544	640	10,184
Collective	13,494	1,463	16,403	(11)	31,349
Total	**13,494**	**1,463**	**25,947**	**629**	**41,533**

The above table also includes the impairment of securities at fair value through other comprehensive income (HUF 3 million) and the impairment of other demand deposits (HUF 16 million).

31 December 2018	Stage 1	Stage 2	Stage 3	POC	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired assets	
Individual	-	-	716	-	716
Collective	362	156	358	-	876
Total	**362**	**156**	**1,074**	**-**	**1,592**

All figures in tables are in HUF million except otherwise noted

19. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Gross value	31 December 2019	31 December 2018	1 January 2018
Balance as at 1 January	-	-	-
Increase in subsidiary from merger	3,572	-	-
Increase in subsidiary	28,340	-	-
Increase in associated shares from merger	545	-	-
Closing balance	**32,457**	**-**	**-**

The changes of the impairment losses in subsidiaries and associates are the follows.

Impairment	31 December 2019	31 December 2018	1 January 2018
Balance as at 1 January	-	-	-
Increase in impairment due to merger	258	-	-
Loss allowance	26	-	-
Reversal of loss allowance	-	-	-
Release of loss allowance	-	-	-
Closing balance	**284**	**-**	**-**

All figures in tables are in HUF million except otherwise noted

Equity interests of the Bank in subsidiaries and associates as at 31 December 2019:

	Gross value	Impairment	Book value	Held %
ANTAK 2000 Ltd.	104	-	104	100.00 %
B3 Vagyonkezelő és Szolgáltató Ltd. “v.a.”	1,264	-	1,264	100.00 %
Bács-Metak Ltd. “v.a.”	3	(3)	-	91.20 %
F House Ltd.	10	(10)	-	100.00 %
Fókusz-Sales Ltd. “v.a.”	37	(37)	-	100.00 %
Fontana Gold Ltd.	20	-	20	100.00 %
Goldmetál-97 Ltd. “v.a.”	1	-	1	100.00 %
Hajdú Rent Ltd. “v.a.”	626	(4)	622	100.00 %
Kátak Invest Ltd. “v.a.”	101	-	101	99.90 %
Komtak Ltd. “v.a.”	650	-	650	100.00 %
M7 Takarékszövetkezeti Ingatlanbefektetési Ltd. “v.a.”	63	-	63	100.00 %
MOVI-CO Ltd. “v.a.”	123	-	123	100.00 %
Pantak Ltd. “v.a.”	165	(27)	138	100.00 %
Sajóvölgye Back Office Ltd. “v.a.”	150	(30)	120	100.00 %
Szetak-Szolg. Ltd.	100	-	100	99.80 %
Sziget Ingatlanhasznosító Ltd.	106	(33)	73	100,00 %
Takszöv Ltd.	49	(1)	48	100.00 %
TIFOR Takarék Ingatlanforgalmazó Ltd.	5,014	-	5,014	81.48 %
TIHASZ Takarék Ingatlanhasznosító Ltd.	23,326	-	23,326	97.35 %
Subsidiaries total	**31,912**	**(145)**	**31,767**	**-**
Euro Eco Ltd.	13	(13)	-	22.47 %
Humán Pénzügyi Mediátor Ltd. “v.a.”	40	(40)	-	49.00 %
Journey Invest Ltd.	80	(60)	20	48.00 %
DIÓFA TM-1	350	-	350	23.99 %
iSafe Informatikai Ltd.	62	(26)	36	25.00 %
Associates total	**545**	**(139)**	**406**	**-**
Subsidiaries and associates total	**32,457**	**(284)**	**32,173**	-

Dividends received from subsidiaries and associates was 0 HUF in 2019.

All figures in tables are in HUF million except otherwise noted

20. TANGIBLE ASSETS

31 December 2019	Property	Technical and office equipment, machines, vehicles	Investment in tangible assets	Total
Gross value				
Opening balance	713	462	-	1,175
Increase from mergers	28,693	2,209	-	30,902
Increase	222	173	721	1,116
Decrease*	(26,754)	(167)	-	(26,921)
Closing balance	**2,874**	**2,677**	**721**	**6,272**
Depreciation				
Opening balance	186	423	-	609
Annual depreciation	193	238	-	431
Decrease*	(336)	(58)	-	(394)
Closing balance	**43**	**603**	**-**	**646**
Impairment				
Opening balance	20	-	-	20
Increase	-	-	-	-
Reversal	-	-	-	-
Closing balance	**20**	**-**	**-**	**20**
Net value	**2,811**	**2,074**	**721**	**5,606**

*Following the merger, the Bank carried out a capital increase in two subsidiaries of the legal successor through based on the resolution of its General Meeting. In the course of the contribution has been contributed 1,236 properties and closely related assets from the Bank's register in the amount of HUF 26,9 billion.

All figures in tables are in HUF million except otherwise noted

20. TANGIBLE ASSETS (CONTINUING)

31 December 2018	Property	Technical and office equipment, machines, vehicles	Total
Gross value			
Opening balance	713	459	1 172
Increase	-	21	21
Decrease	-	(18)	(18)
Closing balance	**713**	**462**	**1 175**
Depreciation			
Opening balance	172	428	600
Annual depreciation	14	12	26
Decrease	-	(17)	(17)
Closing balance	**186**	**423**	**609**
Impairment			
Opening balance	23	-	23
Increase	-	-	-
Reversal	(3)	-	(3)
Closing balance	**20**	**-**	**20**
Net value	**507**	**39**	**546**

The tables contain the tangible assets of the Bank expected the right-of-use assets.
Tangible assets of the separate financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 9,093 million as at 31 December 2019 and HUF 10 million as at 31 December 2018.
The right-of-use assets under IFRS 16 have been reported in Note 22.
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 Bank had not been recognised impairment on tangible assets in 2019, while in 2018 an impairment loss of HUF 3 million was reversed on property, plant and equipment.

All figures in tables are in HUF million except otherwise noted

21. INTANGIBLE ASSETS

31 December 2019	Intangible assets	CDI asset related to MTB portfolio transfer	Total
Gross value			
Opening balance	146	-	146
Increase from mergers	5,873	-	5,873
Increase	124	1,275	1,399
Decrease	(7)	-	(7)
Closing balance	**6 136**	**1,275**	**7,411**
Depreciation			
Opening balance	81	-	81
Annual depreciation	454	199	653
Decrease	-	-	-
Closing balance	**535**	**199**	**734**
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Reversal	-	-	-
Closing balance	**-**	**-**	**-**
Net value	**5,601**	**1,076**	**6,677**

The Bank records software, licenses, trademarks, telephone line locks, ISDN connection fees and utility development contributions purchased as intangible assets.
The CDI asset related to the MTB portfolio transfer was acquired on 1 May 2019 during the transfer.

All figures in tables are in HUF million except otherwise noted

21. INTANGIBLE ASSETS (CONTINUING)

31 December 2018	Intangible assets	Total
Gross value		
Opening balance	132	132
Increase	15	15
Decrease	(1)	(1)
Closing balance	**146**	**146**
Depreciation		
Opening balance	62	62
Annual depreciation	20	20
Decrease	(1)	(1)
Closing balance	**81**	**81**
Impairment		
Opening balance	-	-
Increase	-	-
Reversal	-	-
Closing balance	**-**	**-**
Net value	**65**	**65**

The Bank estimates the recoverable amount of the intangible asset. Based on this were not such an asset by the Bank, where the recoverable amount would have been lower than the the carrying amount of an asset, therefore impairment have not been recognised on intangible assets in 2019 and 2018.

All figures in tables are in HUF million except otherwise noted

22. IFRS 16 LEASES

Right-of-use assets

	31 December 2019	31 December 2018	1 January 2018
Owned property, plant and equipment	5,606	546	549
Right-of-use assets, except investment properties	9,093	10	8
Total property, plant and equipment	**14,699**	**556**	**557**

Lease liabilities

Lease liabilities presented in the statement of financial position

	31 December 2019	31 December 2018	1 January 2018
Short term	2,204	2	2
Long term	7,046	8	6
Total lease liabilities	**9,250**	**10**	**8**

Maturity analysis - undiscounted contractual payments

	31 December 2019	31 December 2018	1 January 2018
Up to 1 year	2,345	2	2
1 year to 5 years	6,544	9	7
Over 5 years	841	-	-
Total undiscounted lease liabilities	**9,730**	**11**	**9**

Right-of-use assets

	Property	Company car	Total
Opening balance at 1 January 2018	**-**	**8**	**8**
Increase	-	4	4
Amortization for the year	-	(2)	(2)
Decrease	-	-	-
Balance at 31 December 2018	**-**	**10**	**10**
Increase	8,542	1,335	9,877
Amortization for the year	(669)	(87)	(756)
Decrease	(17)	(21)	(38)
Balance at 31 December 2019	**7,856**	**1,237**	**9,093**

All figures in tables are in HUF million except otherwise noted

Total cash outflow for leases

	31 December 2019	31 December 2018
Total cash outflow for leases	(706)	(2)

Items related to lease liabilities presented in profit or loss

	31 December 2019	31 December 2018
Interest expense on the lease liabilities	(34)	-
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	-
Income from subleasing right-of-use assets	-	-
Gains or losses arising from sale and leaseback transactions	-	-
	(34)	**-**

Items presented in the statement of cash flows

	31 December 2019	31 December 2018
Interest expense on the lease liabilities	(34)	-
Cash payments for the principal portion of the lease liability	(706)	(2)

23. OTHER ASSETS

	31 December 2019	31 December 2018	1 January 2018
Prepaid expenses	1,208	6	5
Reclaimable taxes	114	-	9
Subsidy received from the Hungarian State related to lending activities	-	-	85
Repossessed collateral	353	40	60
Claim arising from an EIR advisory service	-	-	28
Other receivables from credit Institution*	-	10,123	-
Accrued amount of fair value difference at initial recognition of loans under Funding for Growth Scheme	2,887	96	138
Other	501	2	55
Total	**5,063**	**10,267**	**380**

*The value as of 31 December 2018 is related to the transfer of the Bóly és Vidéke Takarék portfolio. The loan and deposit portfolio was transferred in December 2018, but the related purchase price was settled only in January 2019.

All figures in tables are in HUF million except otherwise noted

24. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Deposits	1,787,772	42,627	30,020
Loans received	205,566	15,783	4,414
Other financial liabilities	16,991	78	8
Total	**2,010,329**	**58,488**	**34,442**

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	Credit risk provision	Provision for amounts relating to accrued vacation pay	Other provision*	Provision for pending lawsuit	Total
Opening balance at 1 January 2019	**74**	**-**	**-**	**-**	**74**
Increase from mergers	2,630	569	2,253	258	5,710
Increase in the period	1,041	183	2,515	51	3,790
Derecognition / Use of provision in the period	(1,721)	(48)	(262)	(39)	(2,070)
Closing balance at 31 December 2019	**2,024**	**704**	**4,506**	**270**	**7,504**

**Provisioning is related to liabilities for remuneration plan, reorganisation and severance payment.*

The net balance of provisions for losses and release of provisions in 2019 - HUF 1,720 million - of which HUF 1,300 million was recognized in the separate Statement of Profit or Loss under provisions, and HUF 414 million was recognized in other operating expenses.
In connection with off-balance sheet exposures denominated in foreign currency, the annual revaluation difference of provisions denominated in the currency of the exposures was HUF 6 million, which was recognized in the separate Statement of Profit or Loss in loss from foreign exchange transactions.

All figures in tables are in HUF million except otherwise noted

2018	Credit risk provision	Provision for amounts relating to accrued vacation pay	Other provision	Provision for pending lawsuit	Total
Opening balance at 1 January 2018	**30**	**-**	**-**	**-**	**30**
Increase in the period	44	-	-	-	44
Derecognition / Use of provision in the period	-	-	-	-	-
Closing balance at 31 December 2018	**74**	**-**	**-**	**-**	**74**

26. OTHER LIABILITIES

	31 December 2019	31 December 2018	1 January 2018
Taxes payable	3,656	89	58
Suppliers	18	-	-
Accrued expenses	17,362	322	244
Early loan repayments	-	3	-
Accrued part of disbursed liabilities under Funding for Growth Scheme	3,547	1,128	358
Other	368	3	114
Total	**24,951**	**1 545**	**774**

27. SHARE CAPITAL

27.1. Ownership structure

The table shows the structure of the shares as follows:

Type of shares	Number of shares		Face value (thousand HUF/pieces)		Total face value (thousand HUF)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Ordinary shares	9,826	20,916	10,000,000	100,000	98,260	2,092
Priority shares	200,000	-	10,000	-	2,000	-
Total	**209,826**	**20,916**	**-**	**-**	**100,260**	**2,092**

Shareholders	31 December 2019			31 December 2018		
	Number of share-holders	Face value (in HUF million)	Holding (%)	Number of share-holders	Face value (in HUF million)	Holding (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	1	73,570	73.38%	1	2,092	100.00%
Magyar Posta Ltd.	1	17,710	17.67%	-	-	-%
Other legal entity	23	5,010	5.00%	-	-	-%
Natural person	268	3,950	3.94%	-	-	-%
Other organization	1	20	0.02%	-	-	-%
Total	**294**	**100,260**	**100.00%**	**1**	**2,092**	**100.00%**

Two of the 294 members have more than 5% ownership. Names, registered offices and voting rights of owners above 5% on 31 December 2019:

Name	Regis-tered office	Priority shares (pieces)	Ordinary shares (pieces)	Number of shares (pieces)	Face value	Holding (%)
MTB Bank of Hungarian Sav-ing Cooperatives Co. Ltd.	Budapest	200,000	7,157	207,156	73,570	73.38%
Magyar Posta Ltd.	Budapest	-	1,771	1,771	17,710	17.67%

In the Takarékbank Ltd. has 2 owners with more than 10 % ownership, the number of shares are 208,928 pieces, their total controlling interests are 91.05 %.

27.2. Other reserves

	31 December 2019	31 December 2018	1 January 2018
General reserve	-	617	607
Other retained earnings	1,059	-	-
Closing balances	**1,059**	**617**	**607**

27.2.1. 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 was fully released as at 31 December 2019. (General reserve was HUF 617 million as at 31 December 2018).

27.3. Cumulated other comprehensive income

	31 December 2019	31 December 2018
Opening balance	16	58
Cumulated other comprehensive income	**(816)**	**(42)**
Items that will not be reclassified to profit or loss	**(359)**	**64**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(285)	70
Income tax relating to items that will not be reclassified	(74)	(6)
Items that may be reclassified to profit or loss	**(457)**	**(106)**
Cash flow hedges (effective portion)		
Debt instruments at fair value through other comprehensive income	(457)	(119)
Income tax relating to items that may be reclassified to profit or loss	-	13
Derecognition of equity instruments at fair value	(1,416)	-
Merger change	2,674	-
Closing balance	**458**	**16**

28. CONTINGENT LIABILITIES

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
Guarantees	7,209	452	112
Loan commitments	326,845	3,954	2,531
Bail	7,181	1,599	1,939
Contingents liabilities from litigation	778	10	-
Contingent liabilities from other contracts	125	-	-
Contingent liabilities due to remuneration	95	-	-
FX spot future liability	705	-	-
FX forward future liability	301	-	-
Total	**343,239**	**6,015**	**4,582**

All figures in tables are in HUF million except otherwise noted

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

29.1. Financial assets at amortised cost

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 some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

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

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

The fair value of financial assets at amortized cost is shown in the table below:

31 December 2019		31 December 2018		1 January 2018	
Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
1,927,012	1,895,253	39,931	39,262	27,452	27,452

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 deals	13	-	1,082	-
Total trading derivate assets	**13**	**-**	**1,082**	**-**
Hedge derivative deals	163	-	25,268	-
Total derivative financial assets	**176**	**-**	**26,350**	**-**

	Fair value		Notional amount	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
IRS deals	13	-	1,082	-
Total trading derivate liabilities	**13**	**-**	**1,082**	**-**
Hedge derivative deals	1,495	-	47,770	-
Total derivative financial liabilities	**1,508**	**-**	**48,852**	**-**

All figures in tables are in HUF million except otherwise noted

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.

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.

29.4. 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 some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

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

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

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	-	13	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	3,064
Securities at fair value through other comprehensive income	38,793	31,871	732
Derivatives – Hedge accounting	-	163	-
Total assets carried at fair value	**38,793**	**32,047**	**3,796**

	31 December 2019		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	13	-
Derivatives – Hedge accounting	-	1,495	-
Total liabilities carried at fair value	**-**	**1,508**	**-**

All figures in tables are in HUF million except otherwise noted

	31 December 2018		
	Level 1	Level 2	Level 3
Assets			
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	667
Securities at fair value through other comprehensive income	-	2,890	-
Total assets carried at fair value	**-**	**2,890**	**667**

Instruments' movements in Level 3 2018	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2018	**911**	**-**
Statement of profit or loss		
(Loss)/Profit	-	-
Other comprehensive income	-	-
Transactions		-
Purchase/portfolio growth	-	-
Sale of assets/Settlement/ Derecognition/	(244)	-
Transfers		
Transfer to Level 3	-	-
Transfer from Level 3	-	-
Closing balance at 31 December 2018	**667**	**-**

Instruments' movements in Level 3 2019	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2019	**667**	**-**
Statement of profit or loss		
(Loss)/Profit	-	-
Other comprehensive income	-	(285)
Transactions		
Purchase/portfolio growth	2,480	1,017
Sale of assets/Settlement/ Derecognition/	(83)	-
Transfers		
Transfer to Level 3	-	-
Transfer from Level 3	-	-
Closing balance at 31 December 2019	**3,064**	**732**

All figures in tables are in HUF million except otherwise noted

30. RISK MANAGEMENT

30.1. Overview

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

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

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to 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 Szhitv 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 Bank of Hungarian Saving Cooperatives Co. Ltd. is mandatory for credit institutions and companies under consolidated supervision led by MTB Bank of Hungarian Saving Cooperatives Co. 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 Takarékbank Ltd. 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 Takarékbank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

The Risk Strategy is based on the following main pillars:

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

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

30.2. Risk management structure

Board of Directors

The Boards of Directors are responsible for the 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 Bank of Hungarian Saving Cooperatives Co. Ltd. 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.

Risk Taking-Risk Management Committee

The members of the Committee are members of the Board of Directors who are not employed by Takarékbank Ltd. The Committee shall in particular:

a) preparing an expert opinion for senior executives on Bank's current and future risk-taking strategy and risk appetite,
b) supporting the Board of Directors in supervising the implementation of the risk-taking strategy,
c) an examination of the consistency between the pricing principles and Bank's business model and risk-taking strategy; and
d) an examination of the remuneration policy in terms of whether the incentive elements of the remuneration system established take into account Takarékbank's risks, capital and liquidity position, and the probability and timing of incomes.

Supervisory Board

The Supervisory Boards of the Takarékbank 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 Takarékbank in order to ensure compliance with the statutory capital adequacy requirements.

Assets and Liabilities Committee (ALCO)

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, planning/controlling management, pricing and sales, developing, liquidity risk management, market risk management, credit and counterparty risk, concentration risks, operational risk, risk policy / risk strategy, capital management and categories defined in the internal policies for the Committee.

The ALCO has the right make decisions according to the defined categories. The committee determines the strategic and development orientations for the business management related to Takarékbank interest bearing assets and liabilities. The committee has different tasks related to the asset and liability management (ensuring liquidity, interest rate risk, exchange rate risk, capital adequacy, interest margin and funding risk management). Continuously monitors the Takarékbank and the Integration the liquidity position, makes suggestion for the interest policy. In order to ensure the prudential requirements, the Bank shall establish and maintained the conformity between income and liquidity.

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 Takarékbank'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 Takarékbank's Supervisory Board and the Management of the Takarékbank.

Risk evaluation and reporting system

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

In terms of liquidity as well as interest, shares 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. Takarékbank 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.

Risk Taking-Risk Management Committee, The Boards of Directors and The Supervisory Board evaluate the reports on risks of the Takarékbank 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 Takarékbank 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 Takarékbank.

Risk-taking for retail customers was carried out using standardized loan facilities and lending processes, which resulted in a high number of customers, a low amount of individual loans, diversification and thus the spraying of risks.

There are also standardized product deliveries for micro and small businesses. Risk-taking against medium-sized and large companies is based on individual analysis and decisions, and continuous monitoring is given great emphasis.

Takarékbank applies strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

MTB Bank of Hungarian Saving Cooperatives Co. Ltd. transferred its corporate and retail account contract, deposit, loan and guarantee portfolios to the new Takarékbank. On October 31, 2019, the company law merger of another 11 savings cooperatives and 2 banks completed the almost five-year process of creating a single, nationwide, universal commercial bank from the previous nearly 120 savings cooperatives.

In the last merger participated: 3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd. and Takarékbank Ltd., which has been operating regionally until now.
Takarékbank Ltd. took over the customers, employees, entire branch network, deposit-loan and contract portfolios of all credit institutions.
The above portfolios appeared in Takarékbank's systems and were assessed for credit risk in accordance with the internal regulations.

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:
Takarékbank 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:
Takarékbank 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:
Takarékbank 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, Takarékbank 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
Takarékbank 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 mitigates such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The Takarékbank 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

Takarékbank 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.

Written-off

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

<u>Rating-Related Indicators:</u>

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. Takarékbank 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 Bank uses two key elements: As its base scenario, the Bank uses the macroeconomic forecasts provided by Hungarian 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 port- folios, and purchased or originated credit-impaired transactions. For transactions that are in Stage 3 and in a homogeneous portfolio, a similar approach as for Stage 1 and 2 transactions is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal to 100 %.

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

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

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle (TTC) matrices, which are derived from a multi-year rating history. For the next two years, economic forecasts are available. These forecasts are used to transform the TTC matrices into point-in-time (PIT) rating migration matrices.
LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.
The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

IFRS 9 credit risk tables are presented below.

Credit risk exposure 31 December 2019

31 December 2019	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 financial asset	
Gross carrying amount per asset type					
Cash on hand	24,853	-	-	-	24,853
Investment grade	*24,853*	-	-	-	*24,853*
Other demand deposits	80,428	-	-	-	80,428
Investment grade	*80,428*	-	-	-	*80,428*
Securities at fair value through other comprehensive income	70,667	-	-	-	70,667
Investment grade	*70,667*	-	-	-	*70,667*
Securities measured at amortised cost	20,624	-	-	-	20,624
Investment grade	*20,624*	-	-	-	*20,624*
Due from banks	468,531	-	-	-	468,531
Investment grade	*467,890*	-	-	-	*467,890*
Non-investment grade	*641*	-	-	-	*641*
Retail	480,133	5,588	20,112	446	506,279
Investment grade	*464,741*	*411*	-	-	*465,152*
Default grade	*148*	*160*	*20,112*	*446*	*20,866*
Non-investment grade	*15,244*	*5,017*	-	-	*20,261*

All figures in tables are in HUF million except otherwise noted

Credit risk exposure 31 December 2019 (continuing)

31 December 2019 (continuing)	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 financial asset	
Gross carrying amount per asset type					
Corporate	819,302	11,249	27,373	3,768	861 692
Investment grade	*668,339*	*5,082*			*673 421*
Default grade	*81*	*797*	*27,373*	*3,768*	*32,019*
Non-investment grade	*150,882*	*5,370*			*156,252*
Local government	88,654	177	228	-	89,059
Investment grade	*85,979*	*177*	-	-	*86,156*
Default grade	-	-	*228*	-	*228*
Non-investment grade	*2,675*	-	-	-	*2,675*
Advances	21,844	-	497	-	22,341
Investment grade	*21,844*	-	-	-	*21,844*
Default grade	-	-	*497*	-	*497*
Total gross carrying amount	**2,075,036**	**17,014**	**48,210**	**4,214**	**2,144,474**
Loss allowance	13,494	1,463	25,947	629	41,533
Carrying amount	**2,061,542**	**15,551**	**22,263**	**3,585**	**2,102,941**

All figures in tables are in HUF million except otherwise noted

Credit risk exposure 31 December 2018

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired financial asset	
Gross carrying amount per asset type					
Cash on hand	495	-	-	-	495
Other demand deposits	8,958	-	-	-	8,958
Securities at fair value through other comprehensive income	2,615	-	-	-	2,615
Due from banks	4,909	-	-	-	4,909
Retail	7,146	66	221	28	7,461
Corporate	12,843	460	2,587	506	16,396
Local government	12,574	-	-	-	12,574
Advances	169	-	14	-	183
Investment grade	*169*	-	*0*	-	*169*
*Default grade**	-	-	*14*	-	*14*
Total gross carrying amount	**49,709**	**526**	**2,822**	**534**	**53,591**
Loss allowance	362	156	1,074	-	1,592
Carrying amount	**49,347**	**370**	**1,748**	**534**	**51,999**

*All items except the marked one are classified as Investment grade.

All figures in tables are in HUF million except otherwise noted

Credit risk exposure 1 January 2018

1 January 2018	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Gross carrying amount per asset type					
Cash on hand	262	-	-	-	262
Other demand deposits	687	-	-	-	687
Securities at fair value through other comprehensive income	8,126	-	-	-	8,126
Due from banks	9,724	-	-	-	9,724
Retail	5,956	111	306	169	6,542
Corporate	10,063	17	2,926	-	13,006
Local government	11	-	-	-	11
Advances	-	-	-	-	-
Total gross carrying amount	**34,829**	**128**	**3,232**	**169**	**38,358**
Loss allowance	315	20	1,421	75	1,831
Carrying amount	**34,514**	**108**	**1,811**	**94**	**36,527**

All items are classified as Investment grade.

All figures in tables are in HUF million except otherwise noted

Credit-impaired (Stage 3) assets at 31 December 2019

31 December 2019	Gross exposure	Impairment	Carrying amount
Local government other loan	228	52	176
Retail other loan	6,729	5,768	961
Retail mortgage	13,383	4,573	8,810
Corporate other loan	27,064	14,912	12,152
Corporate mortgage	309	145	164
Advances	497	497	-
Total credit-impaired assets	**48,210**	**25,947**	**22,263**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2018

Type of device	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Impairment loss as at 1 January 2018	**315**	**20**	**1,421**	**75**	**1,831**
Movements with P&L impact					
Reclassification					
Reclassification from Stage 1 to Stage 2	(10)	24	-	-	14
Reclassification from Stage 1 to Stage 3	(1)	-	48	-	47
Reclassification from Stage 2 to Stage 3	-	(4)	11	-	7
Reclassification from Stage 3 to Stage 2	-	3	(8)	-	(5)
Reclassification from Stage 2 to Stage 1	1	(9)	-	-	(8)
Reclassification from Stage 3 to Stage 1	1	-	(42)	-	(41)
Changes in PDs/LGDs/EADs	(38)	(1)	(107)	-	(146)
New financial assets originated or purchased	120	127	90	-	337
Exchange rate and other movements	-	-	44	(42)	2
Other movements with no P&L impact					
Financial assets derecognised during the period	-26	(4)	(383)	(33)	(446)
Impairment loss as at 31 December 2018	**362**	**156**	**1,074**	**-**	**1,592**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2019

Type of device	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 financial asset	
Impairment loss as at 1 January 2019	**362**	**156**	**1,074**	**-**	**1,592**
Movements with P&L impact					
Reclassification					
Reclassification from Stage 1 to Stage 2	(275)	1,215	-	-	940
Reclassification from Stage 1 to Stage 3	(90)	-	788	-	698
Reclassification from Stage 2 to Stage 3	-	(615)	1,317	-	702
Reclassification from Stage 3 to Stage 2	-	99	(379)	-	(280)
Reclassification from Stage 2 to Stage 1	268	(1,567	-	-	(1,299)
Reclassification from Stage 3 to Stage 1	7	-	(372)	-	(365)
Changes in PDs/LGDs/EADs	1,067	(84)	2,088	206	3,277
New financial assets originated or purchased	1,449	-	-	-	1,449
Exchange rate and other movements	-	-	-	-	-
Other movements with no P&L impact					
Financial assets derecognised during the period	(499)	(153)	(1,778)	-	(2,430)
Increase from merger – at 30 April 2019	1,395	391	3,438	39	5,263
Increase from merger – at 31 October 2019	9,810	2,021	19,771	384	31,986
Impairment loss as at 31 December 2019	**13,494**	**1,463**	**25,947**	**629**	**41,533**

All figures in tables are in HUF million except otherwise noted

Provision movement table 2018

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 at 1 January 2018	**30**	**-**	**-**	**30**
Movements with P&L impact				
Reclassification				
Reclassification from Stage 1 to Stage 2	(2)	2	-	-
New financial assets originated or purchased	61	-	-	61
Changes in PDs/LGDs/EADs	-	-	-	-
Exchange rate and other movements	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(17)	-	-	(17)
Provision as at 31 December 2018	**72**	**2**	**-**	**74**

All figures in tables are in HUF million except otherwise noted

Provision movement table 2019

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Provision at 1 January 2019	**72**	**2**	**-**	**74**
Movements with P&L impact				
Reclassification				
Reclassification from Stage 1 to Stage 2	(14)	24	-	10
Reclassification from Stage 1 to Stage 3	(1)	-	50	49
Reclassification from Stage 2 to Stage 3	8	(79)	-	(71)
Reclassification from Stage 3 to Stage 2	-	(3)	7	4
Reclassification from Stage 2 to Stage 1	-	-	(14)	(14)
Reclassification from Stage 3 to Stage 1	-	2	(7)	(5)
Changes in PDs/LGDs/EADs	172	-	-	172
New financial assets originated or purchased	(1,079)	5	345	(729)
Exchange rate and other movements	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period	(91)	(5)	-	(96)
Increase from merger – at 30 April 2019	106	5	1	112
Increase from merger – at 31 October 2019	2,363	74	81	2,518
Provision as at 31 December 2019	**1,536**	**25**	**463**	**2,024**

All figures in tables are in HUF million except otherwise noted

Exposure to credit risk on loan commitments and financial guarantees

31 December 2019	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail exposure	19,170	124	222	19,516
Corporate exposure	244,708	982	1,394	247,084
Local government exposure	18,560	-	3	18,563
Interbank exposure	55,859	-	-	55,859
Total exposure to credit risk	**338,297**	**1,106**	**1,619**	**341,022**

31 December 2018	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail exposure	223	-	-	223
Corporate exposure	4,600	174	-	4,774
Local government exposure	12	-	-	12
Interbank exposure	-	-	-	-
Total exposure to credit risk	**4,835**	**174**	**-**	**5,009**

All figures in tables are in HUF million except otherwise noted

1 January 2018	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail exposure	267	-	-	267
Corporate exposure	2,704	-	-	2,704
Local government exposure	-	-	-	-
Interbank exposure	-	-	-	-
Total exposure to credit risk	**2,971**	**-**	**-**	**2,971**

30.4.3. Forborne loans

Takarékbank 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.

Takarékbank 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 Takarékbank 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 Takarékbank:

a) loans that were modified due to the change of market conditions and in case of which the parties agreed on terms that are available to debtors with similar risk profile classification or similar to other contract under the same market conditions;
b) prolonging of short-term credit facilities that were granted for operational or working capital purposes (overdraft, revolving credit) except when the prolonging of maturity has occurred for the second time in a quarter;
c) prolonging of maturity in case of loans when the debtor that fulfils all contractual terms upon deadline (performing loans), which loans would have most probably been approved for disbursement as of now;
d) prolonging the maturity in case of loans that are fully covered with collateral (apart from the fulfilment of contractual terms of the debtor no loss is expected) that is collateral with

low risk classification based on internal policies implemented by the Bank (Collateral Valuation policy)

e) technical prolongation (temporary extension due to the delay in contracting a new loan)

f) rescheduling the repayment of the loan within original maturity, when the contractual terms after modification do not meet the definition of ballon/bullet loans.

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

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

a) the modified contracted loan was considered to be non-performing loan before the modification or the loan would be considered to be non-performing without the modification,

b) the contract contains partial or complete release of the debt,

c) the debtor performed a principal or interest repayment on loans that would be considered as non-performing loans without concession around when a concession was made in case of another debt,

d) modification of contractual terms when repayment involves the usage of collateral in cases of which the modification includes concession as well.

In case of non-performing restructured loans Takarékbank 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 days (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 days (no delay in payment can occur during this period), after successful recovery the deal can be treated under intensive/preventive monitoring

Rating of restructured loans:

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

An analysis of forborne loan portfolio by loan types

31 December 2019	Gross value	Impairment	Carrying amount
Retail loans	26,605	2,426	24,179
Corporate loans	6,758	2,277	4,481
Local government loans	162	16	146
Total	**33,525**	**4,719**	**28,806**

31 December 2018	Gross value	Impairment	Carrying amount
Retail loans	36	16	20
Corporate loans	302	160	142
Total	**338**	**176**	**162**

1 January 2018	Gross value	Impairment	Carrying amount
Retail loans	33	7	26
Corporate loans	885	70	815
Total	**918**	**77**	**841**

30.4.4. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by Takarékbank:

Real estate
The Bank 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 Takarékbank involve joint and several liabilities 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 assigned claims, lien on claims, otherwise its credit risk has been decreased with assets that covered loans taking into collaterals.

All figures in tables are in HUF million except otherwise noted

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.

The table below shows the structure of the collaterals:

	31 December 2019	31 December 2018	1 January 2018
Mortgage	1,581,274	34,193	28,315
Deposit	150,424	111	156
Guarantee	203,500	14,147	1,117
Other collaterals	102,322	6,138	3,960
Total	**2,037,520**	**54,589**	**33,548**

The above detailed collaterals cover fully the amount of the 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. 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	80,428	8,958	687
Financial assets at fair value through other comprehensive income	70,667	2,615	8,126
Retail loans	506,279	7,461	6,542
Corporate loans	861,692	16,396	13,006
Local government loans	89,059	12,574	11
Due from banks	468,531	4,909	9,724
Advances	22,341	183	-
Off-balance sheet commitments	343,239	6,015	4,582
Total gross credit risk exposure	**2,442,236**	**59,111**	**42,678**

30.5. Market risk

Market risks are including the interest rate risk and equity risk in the trading book (position risk), furthermore foreign exchange rate risk from the complete banking activity.
Takarékbank leads trading book, maintains low its interest rate-, equity-, and foreign exchange rate risk exposure by means of eligible limit system and test of key controls.

30.6. Interest rate risk

All figures in tables are in HUF million except otherwise noted

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. Takarékbank assess interest rate risk on a continuous basis with the help of Gap-analysis and sensitivity analysis. Besides the effect of the unbeneficial interest rate scenarios is monitored continuously with stress testing: how can change the Bank's interest income and expense, or the long term economic capital value. The Bank manages market risk mainly by natural hedging through the eligible content of securities and derivative portfolio.

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

	Sensitivity of interest income 12/31/2019+1 bp	Sensitivity of interest income 12/31/2018+1 bp	Sensitivity of interest income 12/31/2019 +10 bp	Sensitivity of interest income 12/31/2019 +25 bp
HUF	45	32	449	1,121
EUR	(4)	(3)	(37)	(91)

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 45 million in case of HUF, it would decrease by HUF 4 million in case of EUR.

30.7. Exchange rate risk management

The business policy of Takarékbank is to keep exchange rate risk at a low level, it may hold an open foreign exchange position up to the limit specified in the banking book

The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Takarékbank applies VaR calculations and stress tests on the measurement of the foreign exchange exposures.

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

FX	Effect on earnings before income tax (31 December 2019)	Effect on capital (31 December 2019)	Effect on earnings before income tax (31 December 2018)	Effect on capital (31 December 2018)
EUR	(13,300)	(13,300)	(243)	(243)
USD	(2,030)	(2,030)	(179)	(179)
CHF	2,950	2,950	(5)	(5)
Other	110	110	-	-

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 13,300 thousand, in case of USD items with HUF 2,030 thousand, and in case of CHF items it could increase with HUF 2,950 thousand.

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

31 December 2019	HUF	EUR	CHF	Other	Total
Total assets	2,010,014	146,165	2,869	8,704	2,167,752
Total liabilities	(1,891,791)	(141,256)	(2,418)	(8,827)	(2,044,292)
Shareholders' equity	(123,460)	-	-	-	(123,460)
Off-balance sheet items	(87,068)	(23,048)	7	(147)	(110,256)
Position	**(92,305)**	**(18,139)**	**458**	**(270)**	**(110,256)**

31 December 2018	HUF	EUR	CHF	Other	Total
Total assets	60,085	3,298	340	106	63,829
Total liabilities	(56,890)	(2,946)	(223)	(100)	(60,159)
Shareholders' equity	(3,670)	-	-	-	(3,670)
Off-balance sheet items	9,983	167	-	-	10,150
Position	**9,508**	**519**	**117**	**6**	**10,150**

1 January 2018	HUF	EUR	CHF	Other	Total
Total assets	36,193	2,315	75	72	38,655
Total liabilities	(32,762)	(2,343)	(72)	(70)	(35,247)
Shareholders' equity	(3,408)	-	-	-	(3,408)
Off-balance sheet items	(1,132)	180	-	-	(952)
Position	**(1,109)**	**152**	**3**	**2**	**(952)**

30.8. Liquidity and maturity risk

The liquidity is the ability of the institute to fund its asset increasing and to serve its payment obligations entirely as they fall due without having unplanned liquidation losses.

Liquidity risk is associated with maturity transfers for profitability, long-term placements of short-term funds, environmental impacts and the behaviour of other market participants.
The most common method of measuring and analysing liquidity risk is based on cash flow analysis. In the liquidity risk analysis, Takarékbank analyses the funding needs arising from the balance of outflows and inflows into maturity bands and compares the accumulated funding gap measured over different time horizons with the level of balancing capacities. Takarékbank tends to perform the analysis not only on the total cash movements converted into HUF, but also on the most important foreign currencies for the institution.

Takarékbank characterizes liquidity risks with several indicators and limits, the most important of which are based on regulatory indicators (DMM, JMM, LCR, NSFR, required reserve ratio) and various liquidity stress tests. In addition, Takarékbank operates an early warning system to detect liquidity disturbances in a timely manner.

All figures in tables are in HUF million except otherwise noted

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							
Deposits	1,345,086	389,083	48,114	1,794	3,462	233	1,787,772
Due to banks	-	2,804	2,607	51,159	78,694	70,302	205,566
Other financial liabilities	7,741	-	-	9,250	-	-	16,991
Total banking liabilities	**1,352,827**	**391,887**	**50,721**	**62,203**	**82,156**	**70,535**	**2,010,329**

31 December 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Deposits	597	40,316	1,714	-	-	-	42,627
Due to banks	-	898	570	2,100	12,215	-	15,783
Other financial liabilities	-	51	2	13	12	-	78
Total banking liabilities	**597**	**41,265**	**2,286**	**2 113**	**12,227**	**-**	**58,488**

1 January 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Deposits	657	27,224	2,114	25	-	-	30,020
Due to banks	-	338	681	2,370	1,023	2	4,414
Other financial liabilities	-	-	2	6	-	-	8
Total banking liabilities	**657**	**27,562**	**2,797**	**2,401**	**1,023**	**2**	**34,442**

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

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2019

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	105,265	-	105,265
Financial assets held for trading	13	-	13
Non-trading financial assets mandatorily at fair value through profit or loss	33	3,031	3,064
Financial assets at fair value through other comprehensive income	4,584	66,812	71,396
Financial assets at amortised cost	635,417	1,291,595	1,927,012
Derivatives – Hedge accounting	-	163	163
Investments in subsidiaries, joint ventures and associates	-	32,173	32,173
Tangible assets	-	14,699	14,699
Intangible assets	-	6,677	6,677
Tax assets	45	2,182	2,227
Other assets	2,176	2,887	5,063
Total assets	**747,533**	**1,420,219**	**2,167,752**
Liabilities			
Financial liabilities held for trading	13	-	13
Financial liabilities measured at amortised cost	1,795,435	214,894	2,010,329
Derivatives – Hedge accounting	-	1,495	1,495
Provisions	5,306	2,198	7,504
Other liabilities	16,468	8,483	24,951
Total liabilities	**1,817,222**	**227,070**	**2,044,292**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2018

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	9,453	-	9,453
Non-trading financial assets mandatorily at fair value through profit or loss	-	667	667
Financial assets at fair value through other comprehensive income	2,890	-	2,890
Financial assets at amortised cost	7,523	32,408	39,931
Tangible assets	-	556	556
Intangible assets	-	65	65
Other assets	10,267	-	10,267
Total assets	**30,133**	**33,696**	**63,829**
Liabilities			
Financial liabilities measured at amortised cost	44,148	14,340	58,488
Provisions	-	74	74
Tax liabilities	-	52	52
Other liabilities	1,545	-	1,545
Total liabilities	**45,693**	**14,466**	**60,159**

30.9. 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.
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.

30.10. 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.

All figures in tables are in HUF million except otherwise noted

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.

The audited financial statements' data of the integration members' capital adequacy will be published by MTB Bank of Hungarian Saving Cooperatives Co. Ltd. in the Disclosure documents of the business year.

32. RELATED PARTY TRANSACTION

For the purpose of the financial statements, the Bank 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 Bank enters into transactions with related parties under market conditions.

The list of the related parties, - including the subsidiaries, associates of the Bank and other shares of the MTB Bank of Hungarian Saving Cooperatives Co. Ltd. as a parent company - as at 31 December 2019 is the following:

Company	Classification	Core business
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	Parent company	Other lending
ANTAK 2000 Ltd.	Subsidiary	Office machinery for rental
B3 Vagyonkezelő és Szolgáltató Ltd. "v.a."	Subsidiary	Renting and operating of real estate
Bács-Metak Ltd. "v.a."	Subsidiary	Accommodation services
F House Ltd.	Subsidiary	Sale of properties
Fókusz-Sales Ltd. "v.a."	Subsidiary	Real estate management
Fontana Gold Ltd.	Subsidiary	Sale of properties
Goldmetál-97 Ltd. "v.a."	Subsidiary	Other office services
Hajdú Rent Ltd. "v.a."	Subsidiary	Renting and operating of real estate
Kátak Invest Ltd. "v.a."	Subsidiary	Property management
Komtak Ltd. "v.a."	Subsidiary	Renting and operating of real estate
M7 Ingatlanbefektetési Ltd. "v.a."	Subsidiary	Office machinery for rental
MOVI-CO Ltd. "v.a."	Subsidiary	Sale of properties
Pantak Ltd. "v.a."	Subsidiary	Renting and operating of real estate
Sajóvölgye Back Office Ltd. "v.a."	Subsidiary	Renting and operating of real estate
Szetak-Szolg. Ltd.	Subsidiary	Renting and operating of real estate
Sziget Ingatlanhasznosító Ltd.	Subsidiary	Real estate utliziation

Company	Classification	Core business
Takszöv Ltd.	Subsidiary	Real estate for rental
TIFOR Takarék Ingatlanforgalmazó Ltd.	Subsidiary	Sale of properties
TIHASZ Takarék Ingatlanhasznosító Ltd.	Subsidiary	Renting and operating of real estate
Diófa TM1 Ingatlan Befektetési Alap	Joint ventures and associates	Real estate investment
Euro Eco Ltd. "v.a."	Joint ventures and associates	Other lending
Humán Pénzügyi Mediátor Ltd. "v.a."	Joint ventures and associates	Debt collection
Journey Invest Ldt.	Joint ventures and associates	Hotel service
iSafe Informatikai Ltd.	Joint ventures and associates	Web service
Bóly és Vidéke Takarékszövetkezet	Other affiliated company	Other financial intermediation
Central European Credit d.d.	Other affiliated company	Other financial intermediation
DHB Investment Ltd.	Other affiliated company	Other financial intermediation
Díjbeszedő Faktorház Ltd.	Other affiliated company	Purchasing, handling and collection receivables of retail customers
Díjbeszedő Informatikai Ltd.	Other affiliated company	Data services, web hosting services
DÍJNET Ltd.	Other affiliated company	Other business support service activities
Diófa Alapkezelő Ltd.	Other affiliated company	Fund management
Diófa Ingatlankezelő Ltd.	Other affiliated company	Real estate management
Magyar Posta Befektetési Szolgáltató Ltd. "v.a."	Other affiliated company	Selling investment products
MA-TAK-EL Ltd.	Other affiliated company	Complex administrative service
MPT Security Ltd.	Other affiliated company	Securitiy service
Takarék Faktorház Ltd.	Other affiliated company	Other lending
Takarék Ingatlan Ltd.	Other affiliated company	Estate agent service
Takarék Invest Befektetési és Ingatlankezelő Ltd.	Other affiliated company	Property management
Takarék Mortgage Bank Plc.	Other affiliated company	Other lending
Takarék Kockázati Tőkealap	Other affiliated company	Investment fund
Takarék Központi Követelés Kezelő Ltd.	Other affiliated company	Other financial intermediation
Takarék Lízing Ltd.	Other affiliated company	Other lendin
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Other affiliated company	Investment fund
Takarék Zártkörű Befektetési Alap	Other affiliated company	Investment fund
Takarékinfo Központi Adatfeldolgozó Ltd.	Other affiliated company	Data services, web hosting services
Takarékszövetkezeti Informatikai Ltd.	Other affiliated company	IT system operation

Company	Classification	Core business
TAK-INVEST Informatikai és Szolgáltató Ltd.	Other affiliated company	Computer programming
TKK Csoport Ingatlankezelő Ltd.	Other affiliated company	Sale of properties
TKK Takarék Követelésbehajtó Ltd.	Other affiliated company	Debt collection

Loans disbursed to members of the Bank's management bodies amounted to HUF 27 million as at 31 December 2019, and HUF 38 million as at 31 December 2018.

31 December 2019	Outstanding amount	Type of loans
Loans less than 12 months	1	overdraft
Loans over 12 month	26	housing mortgage loan
Total	**27**	

31 December 2018	Outstanding amount	Type of loans
Loans less than 12 months	38	Takarék Otthon Loan
Loans over 12 month	-	-
Total	**38**	

	31 December 2019		31 December 2018	
	Head-count	The amount of emoluments	Head-count	The amount of emoluments
Members of Board of Directors	7	69	6	9
Members of Supervisory Board	5	7	3	5
Total payments	**12**	**76**	**9**	**14**

All figures in tables are in HUF million except otherwise noted

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

31 December 2019	Parent company	Associates and joint ventures	Key management
Due from banks	520,613	-	-
Loans	-	24,861	8,196
Other assets	1,501	14,666	-
Total assets	**522,114**	**39,527**	**8 196**
Due to banks	118,673	94,473	-
Deposits from customers	-	13,239	801
Other liabilities	9,678	6,884	-
Total liabilities	**128,351**	**114,596**	**801**
Interest income	470	30	3
Interest expense	(1,064)	(176)	-
Net interest income	**(594)**	**(146)**	**3**
Fee and commission income	536	42	-
Fee and commission expense	(951)	(616)	-
Net fee and commission income	**(415)**	**(574)**	**-**
Other operating income	62,676	5,633	-
Other operating expense	(59,231)	(13,458)	-
Operating income	**3,445**	**(7,825)**	**-**
Operating expense	(2,793)	(351)	(76)
Profit/loss on transactions with related parties	**(357)**	**(8,896)**	**(73)**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Parent company	Associates and joint ventures	Key management
Due from banks	13,879	870	-
Loans	-	-	38
Other assets	-	10,123	-
Total assets	**13,879**	**10,993**	**-**
Due to banks	16,218	-	-
Deposits from customers	-	-	-
Other liabilities	21	13	-
Total liabilities	**16,239**	**13**	**-**
Interest income	505	-	-
Interest expense	(99)	-	-
Net interest income	**406**	**-**	**-**
Fee and commission income	37	-	-
Fee and commission expense	(113)	(15)	-
Net fee and commission income	**(76)**	**(15)**	**-**
Other operating income	46	8	-
Other operating expense	-	(113)	-
Operating income	**46**	**(105)**	**-**
Operating expense	(5)	(4)	(14)
Profit/loss on transactions with related parties	**371**	**(124)**	**(14)**

All figures in tables are in HUF million except otherwise noted

The financial data of related parties - preliminary, unaudited data, significant companies

Related party	31 December 2019				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Bóly és Vidéke Takarékszövetkezet	0%	301	25	276	(390)
Centrál European Credit d.d.	0%	222	758	(536)	5
DHB Investment Ltd.	0%	340	123	217	106
Díjbeszedő Faktorház Ltd.	0%	7,718	1,489	6,229	982
Díjbeszedő Informatikai Ltd.	0%	1,528	1,139	389	(190)
Díjnet Ltd.	0%	882	244	638	154
Diófa Alapkezelő Ltd.	0%	1,932	357	1,575	1,111
Diófa Ingatlankezelő Ltd.	0%	171	96	75	7
Diófa TM1 Ingatlan Befektetési Alap	23.99%	1,893	67	1,826	(18)
Magyar Posta Befektetési Szolgáltató Ltd. “v.a.”	0%	202	130	72	(281)
MA-TAK-EL Ltd.	0%	4,468	4 337	131	91
MPT Security Ltd.	0%	5	1	3	-
Takarék Faktorház Ltd.	0%	9,158	8 392	766	77
Takarék Ingatlan Ltd.	0%	514	148	366	203
Takarék Invest Befektetési és Ingatlankezelő Ltd.	0%	3,711	9	3,702	7
Takarék Mortgage Bank Plc.	0%	342,897	277 854	65,043	2,866
Takarék Kockázati Tőkealap	0%	4,436	35	4,401	(212)

All figures in tables are in HUF million except otherwise noted

The financial data of related parties, - preliminary, unaudited data, significant companies (continued)

Related party	31 December 2019				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Takarék Központi Követeléskezelőzelő Ltd.	0%	8,586	7,392	1,193	344
Takarék Lízing Ltd.	0%	33,380	32,879	500	195
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	0%	2,919	1	2,917	(65)
Takarék Zártkörű Befektetési Alap	0%	13,280	1,619	11,660	(161)
Takarékinfo Központi Adatfeldolgozó Ltd.	0%	18,934	17,216	1,718	(2,159)
Takarékszövetkezeti Informatikai Ltd.	0%	1,825	74	1,751	160
TAK-INVEST Informatikai és Szolgáltató Ltd.	0%	372	3	369	(17)
TIFOR Takarék Ingatlanforgalmazó Ltd.	81.48%	6,144	20	6,124	(30)
TIHASZ Takarék Ingatlanhasznosító Ltd.	97.5%	23,951	21	23,930	(30)
TKK Csoport Ingatlankezelő Ltd.	0%	4	3	1	(2)
TKK Ingatlan Ltd.	0%	8	-	7	2
TKK Takarék Követelésbehajtó Ltd.	0%	399	1,329	(930)	(935)

All figures in tables are in HUF million except otherwise noted

The financial data of related parties - audited data, significant companies

Related party	31 December 2018				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Bóly és Vidéke Takarékszövetkezet	0%	10,925	10,259	666	(686)
Centrál European Credit d.d.	0%	516	1,026	(510)	(21)
DHB Investment Ltd.	0%	463	355	108	0
Díjbeszedő Faktorház Ltd.	0%	7,515	1,586	5,929	789
Díjbeszedő Informatikai Ltd.	0%	1,658	1,080	578	(131)
Díjnet Ltd.	0%	872	387	484	176
Diófa Alapkezelő Ltd.	0%	1,543	194	1,348	914
Diófa Ingatlankezelő Ltd.	0%	129	60	68	15
Magyar Posta Befektetési Szolgáltató Ltd. “v.a.”	0%	7,265	6,972	293	(104)
MA-TAK-EL Ltd.	0%	1,815	1,775	41	-6
MPT Security Ltd.	0%	4,861	1,399	3,462	220
Takarék Faktorház Ltd.	0%	9,652	8,963	689	45
Takarék Ingatlan Ltd.	0%	421	258	163	5
Takarék Invest Befektetési és Ingatlankezelő Ltd.	0%	3,900	156	3,744	99
Takarék Mortgage Bank Plc.	0%	329,892	268,011	61,881	4,574
Takarék Központi Követeléskezelőzelő Ltd.	0%	3,234	2,395	840	290

All figures in tables are in HUF million except otherwise noted

The financial data of related parties - audited data, significant companies (continuing)

Related party	31 December 2018				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Takarék Lízing Ltd.	0%	24,462	24,357	105	55
Takarék Zártkörű Befektetési Alap	0%	7,603	3	7,600	76
Takarékinfo Központi Adatfeldolgozó Ltd.	0%	22,108	20,390	1,718	(2,365)
Takarékszövetkezeti Informatikai Ltd.	0%	3,287	1,696	1,591	124
TAK-INVEST Informatikai és Szolgáltató Ltd.	0%	410	24	386	18
TKK Csoport Ingatlankezelő Ltd.	0%	17	15	2	(920)
TKK Ingatlan Ltd.	0%	13	8	5	(2,584)

All figures in tables are in HUF million except otherwise noted

33. NET GAINS

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

1 January 2019 – 31 December 2019	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	16	18	274	15,983	55	-	-	16,346
Interest expenses	(1)	-	-	(1,321)	(177)	(33)	-	(1,532)
NET INTEREST INCOME	**15**	**18**	**274**	**14 662**	**(121)**	**(33)**	**-**	**14,814**
Fee and commission income	-	-	-	-	-	17,613	-	17,613
Fee and commission expenses	-	-	-	-	-	(5,854)	-	(5,854)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**11,759**	**-**	**11 759**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	29	(1,557)	-	-	-	(1,528)
Gains on financial assets and liabilities held for trading, net	398	-	-	-	-	-	-	398
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	125	-	-	-	-	-	125
(Losses) from hedge accounting, net	-	-	-	-	(391)	-	-	(391)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	159	159
Other operating income	-	-	-	-	-	-	828	828
Other operating expense	-	-	-	-	-	-	(497)	(497)
OPERATING INCOME	**413**	**143**	**303**	**13,105**	**(513)**	**11,726**	**490**	**25,667**

All figures in tables are in HUF million except otherwise noted

1 January 2018 – 31 December 2018	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	-	31	115	983	464	-	-	1,593
Interest expenses	(5)	-	-	(146)	0	-	-	(151)
NET INTEREST INCOME	**(5)**	**31**	**115**	**837**	**464**	**-**	**-**	**1,442**
Fee and commission income	-	-	-	-	-	828	-	828
Fee and commission expenses	-	-	-	-	-	(245)	-	(245)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**583**	**-**	**583**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	43	(8)	-	-	-	35
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	(26)	-	-	-	-	-	(26)
Other operating income	-	-	-	-	-	-	34	34
Other operating expense	-	-	-	-	-	-	(6)	(6)
OPERATING INCOME	**(5)**	**5**	**158**	**829**	**464**	**583**	**29**	**2,063**

All figures in tables are in HUF million except otherwise noted

34. COMPARATIVE DATA

Separate Statement of Financial Position as at 31 December 2018

As the base period figures of the Bank's statement of financial position include only the data of Mohácsi Takarék Bank Ltd., the following tables contain the aggregated financial data of the entities merging during the reporting period as at 31 December 2018.

	Mohácsi Takarék Bank	Entities merging on 30 April 2019 *	Entities merging on 31 October 2019 **	Aggregation	Adjustments of items within the Group	Comparative data 31 December 2018
Assets						
Cash, cash balances at central banks and other demand deposits	9,453	10,746	180,054	200,253	(9)	200,244
Financial assets held for trading	-	-	1,732	1,732	-	1,732
Non-trading financial assets mandatorily at fair value through profit or loss	667	762	2,473	3,902	-	3,902
Financial assets at fair value through other comprehensive income	2,890	7,357	222,346	232,593	(4,100)	228,493
Financial assets at amortised cost	39,931	175,410	1,235,079	1,450,420	-	1,450,420
Derivatives – Hedge accounting	-	-	1	1	-	1
Investments in subsidiaries, joint ventures and associates	-	2,019	1,664	3,683	-	3,683
Tangible assets	556	5,407	32,371	38,334	-	38,334
Intangible assets	65	955	4,916	5,936	-	5,936
Tax assets	-	327	2,062	2,389	-	2,389
Other assets	10,267	894	10,727	21,888	-	21,888
Total assets	**63,829**	**203,877**	**1,693,425**	**1,961,131**	**(4,109)**	**1,957,022**

*Includes figures of the entities merging on 30 April 2019: Pannon Takarékbank, B3 Takarékszövetkezet on the IFRS Statement of Financial Position as at 31 December 2018

**Includes figures of the entities merging on 31 October 2019: 3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd. on the IFRS Statement of Financial Position as at 31 December 2018

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2018 (Continuing)

	Mohácsi Takarék Bank	Entities merging on 30 April 2019 *	Entities merging on 31 October 2019 **	Aggregation	Adjustments of items within the Group	Comparative data 31 December 2018
Liabilities						
Financial liabilities held for trading	-	-	1,765	1,765	-	1,765
Financial liabilities measured at amortised cost	58,488	192,095	1,575,772	1,826,355	(4,109)	1,822,246
Derivatives – Hedge accounting	-	-	475	475	-	475
Provisions	74	348	5,519	5,941	-	5,941
Tax liabilities	52	1	183	236	-	236
Capital repayable on request	-	-	14	14	-	14
Other liabilities	1,545	1,840	19,290	22,675	-	22,675
Total liabilities	**60,159**	**194,284**	**1,603,018**	**1,857,461**	**(4,109)**	**1,853,352**
Equity						
Share Capital	2,092	3,585	18,740	24,417	-	24,417
Share premium	-	-	21,647	21,647	-	21,647
Accumulated other comprehensive income	16	1,556	2,770	4,342	-	4,342
Retained earnings	651	3,801	43,465	47,917	-	47,917
Other reserve	607	303	3,923	4,833	-	4,833
Treasury shares (-)	-	(471)	-	(471)	-	(471)
Profit/(Loss) for the year	304	819	(138)	985	-	985
Total equity	**3,670**	**9,593**	**90,407**	**103,670**	**-**	**103,670**
Total equity and total liabilities	**63,829**	**203,877**	**1,693,425**	**1,961,131**	**(4,109)**	**1,957,022**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Total Comprehensive Income for the year ended 31 December 2018
As the base period figures of the Bank' statement of total comprehensive income include only the data of Mohácsi Takarék Bank Ltd., the following table contains the aggregated audited financial data of the entities merging during the reporting period as at 31 December 2018.

	Mohácsi Takarékbank	Entities merging on 30 April 2019 *	Entities merging on 31 October 2019 **	Aggregation	Adjustments of items within the Group	Comparative data 31 December 2018
Net interest income	1,442	5,208	36,986	43,636	-	43,636
Net fee and commission income	583	4,778	33,143	38,504	(7)	38.497
Net trading result	48	(373)	9,139	8,814	-	8,814
Operating income, net	2,102	10,148	75,520	87,770	7	87,777
Profit before tax	**379**	**695**	99	1,173	-	1,173
Income tax expense	(75)	124	(37)	(188)	-	(188)
Profit/(Loss) for the year	**304**	**819**	**(138)**	**985**	**-**	**985**
Other comprehensive income	(42)	(1,232)	91	(1,183)	-	(1,183)
Total comprehensive income for the year	**262**	**(413)**	**(47)**	**(198)**	**-**	**(198)**

*Includes data of the entities merging on 30 April 2019: Pannon Takarékbank, B3 Takarékszövetkezet on the IFRS Statement of Total Comprehensive Income for the year ended 31 December 2018
**Includes data of the entities merging on 31 October 2019: 3A Takarékszövetkezet, Békés Takarék Szövetkezet, CENTRÁL TAKARÉK Szövetkezet, Dél TAKARÉK Szövetkezet, Fókusz Takarékszövetkezet, Hungária Takarék Takarékszövetkezet, KORONA TAKARÉK Takarékszövetkezet, M7 TAKARÉK Szövetkezet, Nyugat Takarék Szövetkezet, Pátria Takarékszövetkezet, TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd. on the IFRS Statement of Total Comprehensive Income for the year ended 31 December 2018

All figures in tables are in HUF million except otherwise noted

35. 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 financial statements were prepared by the Bank in accordance with the Hungarian Accounting Standards ("HAS").

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.

35.1. Comparing the amount in the financial statements and profit or loss prepared under the Accounting 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		950	-	950
Non-trading financial assets mandatorily at fair value through profit or loss	a)	-	911	911
Financial assets at fair value through other comprehensive income	b)	8,254	73	8,327
Financial assets at amortised cost	a) c)	28,273	(821)	27,452
Tangible assets	e) k)	880	(323)	557
Intangible assets	d)	70	-	70
Tax assets	h)	-	8	8
Other assets	i)	242	138	380
Total assets		**38,669**	**(14)**	**38,655**

All figures in tables are in HUF million except otherwise noted

1 January 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Liabilities				
Financial liabilities at amortised cost	e)	34,792	(350)	34,442
Provisions	f) g)	-	30	30
Tax liabilities		1	-	1
Other liabilities	j)	390	384	774
Total liabilities		**35,183**	**64**	**35,247**
Equity				
Share Capital		2,092	-	2,092
Accumulated other comprehensive income	b)	-	58	58
Retained earnings		455	196	651
Other reserves	k)	939	(332)	607
Total equity		**3,486**	**(78)**	**3,408**
Total equity and total liabilities		**38,669**	**(14)**	**38,655**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Assets				
Cash, cash balances at central banks and other demand deposits		9,453	-	9,453
Non-trading financial assets mandatorily at fair value through profit or loss	a)	-	667	667
Securities, financial assets at fair value through other comprehensive income	b)	2,874	16	2,890
Financial assets at amortised cost	a) c)	40,130	(199)	39,931
Tangible assets	e) k)	880	(324)	556
Intangible assets	d)	92	(27)	65
Tax assets	h)	-	-	-
Other assets	i)	10,172	95	10,267
Total assets		**63,601**	**228**	**63,829**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Liabilities				
Financial liabilities at amortised cost	e)	59,606	(1 118)	58,488
Provisions	f) g)	-	74	74
Tax liabilities	h)	-	52	52
Other liabilities	j)	411	1,134	1,545
Total liabilities		**60,017**	**142**	**60,159**
Equity				
Share Capital		2,092	-	2,092
Accumulated other comprehensive income	b)	-	16	16
Retained earnings		456	195	651
Other reserves	k)	941	(334)	607
Profit for the year		95	209	304
Total equity		**3,584**	**86**	**3,670**
Total liabilities and total equity		**63,601**	**228**	**63,829**

All figures in tables are in HUF million except otherwise noted

2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Interest income	c)	1,547	46	1,593
Interest expenses	e)	(149)	(2)	(151)
Net interest income		**1,398**	**44**	**1,442**
Fee and commission income		828	-	828
Fee and commission expenses		(245)	-	(245)
Net fee and commission income		**583**	**-**	**583**
Dividend income		-	-	-
Profit from foreign exchange transactions		39	-	39
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		35	-	35
(Losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	a)	-	(26)	(26)
Net trading result		**74**	**(26)**	**48**
Other operating income		34	-	34
Other operating expense		(6)	-	(6)
Total operating income, net		**2,083**	**18**	**2,101**
Provisions	f) g)	-	(44)	(44)
Impairment or (reversal of impairment) on financial assets not measured at fair value through profit or loss	c)	(354)	304	(50)
(Reversal of impairment) on non-financial assets		(2)	-	(2)
General and administrative expenses	d),e)	(1,623)	(3)	(1,626)
Profit before tax		**104**	**275**	**379**
Income tax expense	h)	(10)	(65)	(75)
Profit for the year		**94**	**210**	**304**
Other comprehensive income		**-**	**(42)**	**(42)**
Comprehensive income for the year		**94**	**168**	**262**

All figures in tables are in HUF million except otherwise noted

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

a) note:

Those loans are reclassified from Financial assets at amortised cost to Loans in non-trading financial assets mandatorily at fair value through profit or loss which did not pass the SPPI test's criteria. According the standard did not assign the fees and commission to these loans, they are classified as the fair value through profit or loss category.

b) note:

Among financial assets at fair value through other comprehensive income are equity (instruments) and debt securities also. These instruments are presented at fair value through other comprehensive income.

c) note:

The amount of the initial fees and commission was recognised numerically in case of loans at amortised cost in accordance with the standard. Furthermore, was presented the effect of the impairment under IFRS 9. As at 1 January 2018 was the impairment under IFRS 9 HUF 2,002 million, whereas the impairment recognised previously according to Hungarian Accounting Standards (hereinafter „HAS") was HUF 1,207 million, and as at 31 December 2018 was the impairment under IFRS 9 HUF 1,577 million, whereas the impairment according to Hungarian Accounting Standards („HAS") was HUF 1,066 million.

d) note:

The cost of research and development were derecognized – in the amount of HUF 27 million as at 31 December 2018 – according to IAS 38 from intangible assets.

e) note:

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 8 million as at 1 January 2018, and was HUF 10 million as at 31 December 2018.

f) note:

The effect of provisions for loan commitments and guarantee contracts according to IFRS 9 were recognised. As at 1 January 2018 was the provision under IFRS 9 HUF 30 million, whereas according to HAS was recognised HUF 0, and as at 31 December 2018 was the provision under IFRS 9 HUF 74 million, whereas according to HAS was recognised HUF 0.

g) note:

Recognition of provision for amounts relating to accrued vacation pay was HUF 0.4 million as at 31 December 2018.

h) note:

The deferred tax assets and liabilities were recognised according to IAS 12 through transition to IFRS.

i) note:

Through the transition of IFRS the accrued part of the fair value at initial recognition of the disbursed loans under Funding for Growth Scheme – HUF 138 million as at 1 January 2018 and HUF 95 million as at 31 December 2018 - was reported in other assets.

j) note:

Through the transition of IFRS the accrued part of the fair value at initial recognition of the borrowed loans under Funding for Growth Scheme –HUF 358 million as at 1 January 2018 and HUF 1,128 million as at 31 December 2018 - was reported in other liabilities.

k) note:

Value adjustment under the HAS has been derecognised from Tangible assets– HUF 332 million as at 1 January 2018 and HUF 334 million as at 31 December 2018.

33.2. 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 pro-fit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore, the equity corre-lation 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 1 January 2018:

1 January 2018	Share Capital	Unpaid capi-tal which has been called up	Capital re-serve	General reserve	Retained earnings and other re-serves	Revaluation re-serves	Tied-up re-serve	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**2,092**	**-**	**-**	**-**	**1,316**	**-**	**-**	**-**	**3,408**
Unused portion of reserve for developments	-	-	-	-	(10)	-	10	-	-
Accumulated other comprehensive income	-	-	-	-	(58)	58	-	-	-
General reserve	-	-	-	607	(607)	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**2,092**	**-**	**-**	**607**	**641**	**58**	**10**	**-**	**3,408**

All figures in tables are in HUF million except otherwise noted

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

31 December 2018	Share Capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation re-serves	Tied-up re-serve	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**2,092**	**-**	**-**	**-**	**1,273**	**-**	**-**	**304**	**3,669**
Accumulated other comprehensive income	-	-	-	-	(16)	16	-	-	-
Cooperative indivisible property, tied-up reserve	-	-	-	-	(28)	-	28	-	-
General reserve	-	-	-	617	(617)	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**2,092**	**-**	**-**	**617**	**612**	**16**	**28**	**304**	**3,669**

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

31 December 2019	Share Capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earn-ings and other reserves	Revaluation re-serves	Tied-up reserve	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**100,260**	**-**	**21,647**	**-**	**11,402**	**-**	**-**	**(9,849)**	**123,460**
Accumulated other comprehensive income	-	-	-	-	(458)	458	-	-	-
Share capital non registered on the Registry Court	(10)	-	-	-	-	-	-	-	(10)
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**100,250**	**-**	**21,647**	**-**	**10,944**	***458***	**-**	**(9,849)**	**123,450**

All figures in tables are in HUF million except otherwise noted

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

	31 December 2019	31 December 2018	1 January 2018
Share capital in accordance with IFRS adopted by EU	100,260	2,092	2,092
Share capital registered on the Registry Court	100,250	2,092	2,092
Difference	***10***	**-**	**-**

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	11,402	1,273	1,316
Unused portion of reserve for developments	-	-	(10)
Accumulated other comprehensive income	(458)	(16)	(58)
Cooperative indivisible property, tied-up re-serve	-	(28)	-
General reserve	-	(617)	(607)
Net profit for the year	(9,849)	304	-
Untied retained earnings available for the payment of dividends	***1,095***	**916**	**641**

All figures in tables are in HUF million except otherwise noted

36. POST BALANCE SHEET EVENTS

MTB Bank of Hungarian Savings Cooperatives Ltd. as the majority owner, signed an agreement on the sale of Diófa Fund Management Ltd. (hereinafter also as: Diófa Management Company, Management Company) on December 30, 2019. Takarékbank continues to manage and market Diófa Management Company's shares of investment funds and provides complete banking infrastructure for Diófa and their clients.

On March 11, 2020, the Management Board of the Takarék 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 continuously issues directives and recommendations for each employees and prepares a periodic report about in line with the Body's meetings.

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. The emergency situation will undoubtedly influence macroeconomic conditions (GDP-growth, unemployment, inflation, real estate prices etc.).

In the first quarter of 2020 the Takarék Group has not yet observed any negative tendency that would suggest a meaningful deterioration in the quality of the loan portfolio. At the same time the Bank integrates into its plans the expected impacts of a weaker credit portfolio taking the updated macroeconomic forecasts into consideration.
The Bank specified its plans for impairments based on scenarios for quick economic stabilization, for an extended recovery and for a deeper crisis situation as well. As global and domestic macroeconomic developments as well as their impacts on the Bank's clients unfold, the expected impairment effects will be gradually incorporated into calculations.

With respect to the credit moratorium special attention will be devoted to the modification of the monitoring process in provisioning. In addition to monitoring the participation ratio in the credit moratorium and the willingness to pay on part of clients, the primary monitoring tools will be the tracking of turnover on client accounts, direct data request from clients, targeted verbal communication, questionnaires and the observation of publicly available data. These will serve as the basis for identifying those clients, who can be expected to default on their debt obligations or at least should file for restructuring their debt when the credit moratorium is over. These claims will be reclassified into the corresponding impairment stages even despite the moratorium.
As economic developments progress, Takarék Group continuously reconsiders the value of the parameters applied in IFRS9 models. Besides individual "staging" decisions the macro corrections of the model's parameters will be the ground for building the necessary reserves for expected future losses due to the possible deterioration of the credit portfolio hidden by the credit moratorium. See credit risk at the balance sheet date losed in Note 30.4.

By the end of the second quarter of 2020 the effect of the credit moratorium is expected to be visible in the portfolio, and the direction of domestic economic developments in 2020 and 2021 can be more precisely assessed. Accordingly, taking into consideration the enhanced uncertainties, from the second quarter of 2020 Takarék Group gradually starts to incorporate the impacts of macroeconomic tendencies into its impairment calculations.

Reflecting to the economic situation in the wake of the epidemic the Bank reconsidered its basic principles concerning the acceptance of new loan applications. As part of this, the Bank made a statement that it gives priority to extending loans in the framework of state initiated programs for the protection of the economy and it also regards demand for credit from its already existing clients with a view to stabilize their economic activity, a top priority. Lending activity will be maintained across all Divisions, but will be subject to elevated surveillance.

The Central Bank's measures do secure the liquidity need of the Hungarian banking system in the foreseeable future. The announced economy boosting measures have a significant impact of easing the burden on the Bank's clients, which is also positive from Takarékbank's aspects. The Bank's current assumption is that 20-30% of the clientele won't take the opportunity of participating in the credit moratorium. The Central Bank can make up for the lost liquidity by raising corporate receivables to cover, if necessary.

The Bank also actively participates in the tender of Central Bank's 3-5-year secured loan.

108/2020 on the special tax on the epidemiological situation of credit institutions for the replenishment of the Epidemiological Fund for the implementation of the Economic Protection Action Plan. (IV. 14.) of the Government of the Republic of Hungary, an extraordinary special tax liability of HUF 1.1 billion will arise in 2020 on the basis of the preliminary calculation.