MTB Bank of Hungarian Saving Cooperatives Co. Ltd.

Separate Financial Statements and Independent Auditor's Report

December 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders MTB Bank of Hungarian Saving Cooperatives Co. Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MTB Bank of Hungarian Saving Cooperatives Co. Ltd. (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 814,625 –, and the related separate statement of profit or loss, separate statement of other comprehensive income – which shows a profit for the year of MHUF 8,324 –, separate statement of changes in equity and separate statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

We concluded there are no key audit matters, which should be communicated in our audit report.

Other Information: The Business Report

Other information includes the business report of the Bank for 2019. Management is responsible 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 business report.

Our responsibility in connection with our audit of the financial statements is to read the business report and, in doing so, consider whether the business report 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 General Meeting of Shareholders on April 25, 2019 and our uninterrupted engagement has lasted for 6 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on April 7, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

Budapest, April 7, 2020

The original Hungarian version has been signed.

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

MTB Bank of Hungarian Saving Cooperatives Co. Ltd.
Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2019

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

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GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
István Sebestyén

Members of the Board of Directors
Ádám Egerszegi
Levente Szabó
Imre Hartmann
János Zoltán Bogdán
Katalin Vargáné Králik

Responsible person for the control and management of accounting services:
Marianna Bense, PM Registration number:192618

Auditor company
Deloitte Auditing and Consulting Ltd.

Statutory registered auditor
Gábor Molnár

Consolidated financial statements are prepared by the Bank regard to the companies included in the consolidation companies.

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

Seat of the Bank, central office
Budapest
10 Pethényi köz
1122

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

	Notes	2019	2018
Interest income	4	13,551	19,873
Interest expense	4	(6,329)	(5,791)
Net interest income		**7,222**	**14,082**
Fee and commission income	5	14,852	13,537
Fee and commission expense	5	(8,249)	(7,916)
Net fee and commission income		**6,603**	**5,621**
Dividend income		672	457
(Loss)/Profit from foreign exchange transactions	6	(1,176)	1,282
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	7	10,817	50
(Losses)/Gains on financial assets and liabilities held for trading, net		(3,155)	2,041
Gains/(Losses) on non-trading financial assets mandatiroly at fair value through profit or loss, net		654	(115)
(Losses)/Gains from hedge accounting, net		(213)	21
Net trading result		**13,909**	**3,737**
Other operating income	8	6,306	1,836
Other operating expense	8	(573)	(733)
Operating income, net		**33,467**	**24,543**
Provisions		691	670
Impairment on financial assets not measured at fair value through profit or loss		1,326	179
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method		(3,085)	35
Impairment or (-) reversal of impairment on non-financial assets		14	(8)
General and administrative expenses	9,10	(23,477)	(17,592)
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		24	785
Profit before tax		**8,960**	**8,612**
Income tax expense	11	(636)	(548)
Profit for the year		**8,324**	**8,064**

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

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

	Notes	2019	2018
Profit for the year		8,324	8,064
Other comprehensive income	**12**	**6,265**	**2,853**
Items that will not be reclassified to profit or loss		**2,764**	**4,453**
Fair value changes of equity instruments measured at fair value through other comprehensive income		2,794	4,446
Income tax relating to items that will not be reclassified	12	(30)	7
Items that may be reclassified to profit or loss		**3,501**	**(1,600)**
Cash flow hedges (effective portion)		(77)	-
Hedging instruments (not designated elements)		(4,743)	-
Debt instruments at fair value through other comprehensive income		8,321	(1 908)
Income tax relating to items that may be reclassified to profit or (-) loss	12	-	308
Total comprehensive income for the year		**14,589**	**10,917**

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	13	50,727	35,857	34,185
Financial assets held for trading	14	37,248	57,127	72,810
Non-trading financial assets mandatorily at fair value through profit or loss	15	22,915	7,016	1,555
Financial assets at fair value through other comprehensive income	16	291,674	449,896	200,791
Financial assets at amortised cost	17	221,093	536,941	481,203
Derivatives – Hedge accounting	28	344	411	-
Investments in subsidiaries, joint ventures and associates	18	167,595	55,822	38,995
Tangible assets	19,21	4,226	2,624	2,304
Intangible assets	20	595	587	673
Tax assets	11	666	496	531
Other assets	22	14,479	14,160	5,857
Non-current assets classified as held for sale	18	3,063	-	-
Total assets		**814,625**	**1,160,937**	**838,904**

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	28	5,004	5,126	2,004
Financial liabilities measured at amortised cost	23	758,883	1,113,384	805,513
Derivatives – Hedge accounting	28	2,003	101	1,575
Provisions	24	1,188	1,672	2,485
Tax liabilities	11	-	-	-
Other liabilities	25	14,030	15,136	7,603
Total liabilities		**781,108**	**1,135,419**	**819,180**
Equity				
Share Capital	26	3,390	3,390	3,390
Share premium		3,479	3,479	3,479
Accumulated other comprehensive income	26	10,378	4,113	1,195
Retained earnings		5,563	4,921	9,872
Other reserve	26	4,922	4,090	3,319
Treasury shares (-)	26	(2,539)	(2,539)	(1,531)
Profit for the year		8,324	8,064	-
Total equity		**33,517**	**25,518**	**19,724**
Total equity and total liabilities		**814,625**	**1,160,937**	**838,904**

Budapest, 7 April 2020

József Vida
CEO

Antal Martzy
Deputy CEO

All figures in tables are in HUF million except otherwise noted

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

	Notes	2019	2018
Cash flow from operating activities			
Profit for the year		8,324	8,064
Non-cash adjustments to net profit from			
Depreciation and amortization		924	417
Impairment and provision for credit loss expense		1,007	9,619
Impairment and provision/ (Release of other provision)		2,959	(1,099)
Profit/Loss on tangible assets derecognized		8	10
Interest expense on the lease liability		(18)	(4)
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		2,942	440
Fair value adjustments on financial assets measured at fair value through profit or loss		654	115
Operating profit before change in operating assets		**16,799**	**17,563**
Decrease/ (Increase) in operating assets			
Adjustment on derivatives held for trading and derivatives from hedge accounting		18,504	16,479
Changes in non-trading financial assets mandatiroly at fair value through profit or loss		(16,272)	(5,576)
Changes in financial assets at fair value through other comprehensive income		164,487	(246,188)
Changes in financial assets at amortised cost		315,774	(65,071)
Other assets		(3,552)	(8,268)
Increase/ (Decrease) in operating liabilities			
Financial liabilities at amortised cost		(411,455)	269,987
Other liabilities		(7,696)	3,353
Net cash flow from operating activities		**76,589**	**(17,721)**

All figures in tables are in HUF million except otherwise noted

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

	Notes	2019	2018
Cash flow from investing activities			
Proceeds from sales of tangible and intangible assets		(3,539)	(368)
Purchase of tangible and intangible assets		996	(292)
Net cash outflow from investing activities		**(2,543)**	**(660)**
Cash flow from financing activities			
Repayment of leasing liabilities		(668)	(93)
Repayment of long term loans		56,350	37,981
Acquisition of shares in subsidiaries, joint ventures and associates		(114,857)	(16,826)
Net cash outflow from financing activities		**(59,175)**	**20,053**
Increase/ (-) Decrease in cash and cash equivalents		14,871	1,671
Opening balance of cash and cash equivalents		35,857	34,185
Closing balance of cash and cash equivalents		**50,727**	**35,857**
Breakdown of cash and cash equivalents			
Cash		6,933	7,584
Balances with the National Bank of Hungary		30,916	17,457
Due from banks with a maturity of less than 90 days		12,878	10,816
Closing balance of cash and cash equivalents		**50,727**	**35,857**
Supplementary data			
Interest received		*14,424*	*19,873*
Interest paid		*(7,202)*	*(5,791)*

All figures in tables are in HUF million except otherwise noted

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

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
At 1 January 2018		**3,390**	**3,479**	**1,195**	**9,872**	**3,319**	**(1,531)**	**19,724**
Profit for the year		-	-	-	8,064	-	-	8,064
Other comprehensive income for the year		-	-	2,853	-	-	-	2,853
General reserve		-	-	-	(771)	771	-	-
Dividend for the year 2017		-	-	-	(4,178)	-	-	(4,178)
Acquisition of treasury shares		-	-	-	-	-	(1,008)	(1,008)
Other changes of capital		-	-	65	(2)	-	-	63
At 31 December 2018		**3,390**	**3,479**	**4,113**	**12,985**	**4,090**	**(2,539)**	**25,518**
1 January 2019 - Opening		**3,390**	**3.479**	**4,113**	**12,985**	**4,090**	**(2,539)**	**25,518**
Profit for the year		-	-	-	8,324	-	-	8,324
Other comprehensive income for the year		-	-	6,265	-	-	-	6,265
General reserve		-	-	-	(832)	832	-	-
Dividend for the year 2018		-	-	-	(6,590)	-	-	(6,590)
At 31 December 2019		**3,390**	**3,479**	**10,378**	**13,887**	**4,922**	**(2,539)**	**33,517**

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

1. DESCRIPTION OF THE BANK

The separate financial statements of MTB Bank of Hungarian Saving Cooperatives Co. Ltd. (hereinafter MTB Ltd., Bank, Company) for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 31 March 2020. The final approval on the separate financial statements is provided by the General Meeting.

Name:	MTB Bank of Hungarian Saving Cooperatives Co. Ltd.
Seat:	1122 Budapest, Pethényi köz 10.
Website adress:	www.takarekbank.hu
Mailing adress:	1525 Budapest, Pf.:775
Phone number:	06- 1- 202-3777
Registration number:	01-10-041206
Tax number:	10241662-4-44
KSH statistical number sign:	10241662-6419-114-01
Year of foundation:	1989.

Chairman of the Supervisory Board:	István Sebestyén
Chairman of the Board:	József Vida

The MTB Bank of Hungarian Saving Cooperatives Co. Ltd. is the competitive and prudent operation ensuring integration business managing organisation of the Integration of Cooperative Credit Institution, which were the most important customers the Bank establishing cooperative credit institutions.

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.

The MTB Bank of Hungarian Saving Cooperatives Co. Ltd. (hereinafter Bank, MTB, MTB Ltd.) as the integration business managing organisation of the Integration of Cooperative Credit Institution regulates and ensures the integrated banking operation of the participating credit institutions in the Integration and coordinates its business development with providing advanced products and services.

Based on the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv) are defined the integration business managing tasks of the MTB Ltd. The Bank is accepted a mandatory policy for cooperative credit institutions and related parties about risk management's rules, business policy, common marketing activities, integrated IT system. Besides the MTB Ltd. controlles the activities of the cooperative credit institutions and keeping operation consistent with the laws as well as issued policies by the Integration and MTB gives instructions to the cooperative credit institutions' successor and related parties.

All figures in tables are in HUF million except otherwise noted

The Bank were provided to the corporate sector among others active and passive type services, besides its main costumers is the Integration of Cooperative Credit Institution. The Bank pursued fully investment services since 2002, during this had been served private person also. Significant services are beyond the basic financial services (lending, deposit collection, account management) by the Bank:

- Business managing organizational tasks of the Integration's credit institutions
- Bank card issue, acceptance
- Trading of investments
- Custody services
- Securities and costumer account management
- Cash processing

In accordance with the Cooperative Credit Institutions' agency and commission contracts with the Bank, based on the Supervisory Authority's separate permission, the following banking service are provided to their costumers:

- Foreign currency account management and trading
- Investment services
- Bank card distribution and acceptance
- Intermediation of loans

According to the Takarék Group's new business strategy for the period 2019-2023, which have been adopted by the General Meeting of the Bank on 30 November 2018, in 2019 was established a new, universal, commercial bank in which the savings cooperatives merged and hereinafter the new bank serves the customers of all savings as the national commercial bank of the Takarék Group.
On 14 February 2019, the General Assembly decided to change the name of the Bank, that the new universal commercial bank could take on the name Takarékbank Zrt. in 2019, which came into being with the union of 12 savings banks, 2 regional banks and the Takerék Commercial Bank. From 1 April 2019 the new name of the Integration's central bank is MTB Bank of Hungarian Savings Cooperatives Co. Ltd., short name MTB Ltd.
On 14 February 2019, in its Extraordinary General Meeting the Bank took a resolution to assign the portfolio of deposit and other reiumbursable cash, the stock of the payment services framework contracts, and the contractual portfolio for the provision of credit and cash lending services to Takarékbank Ltd. (previous name: Mohácsi Takarék Bank Ltd.), which assignment took place in early May 2019.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

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

2.2. 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 accordane 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 measurment

The separate financial statements have been prepared on a historical cost basis, except for financial assets and liabilities held for trading, financial assets mandatorily 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 as operating leaes in accordance with Hungarian Accounting Standards and the previous Leasing Standard (IAS 17), will be classified as depreciation/amortisation and interest costs after the application of the new IFRS 16 leasing standard. In some cases (e.g when there is a change in the lease term or if there is a change in future lease payments arising from a change in an index or rate) lessee shall remeasure the lease liability. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The standard elects to apply recognition exemptions for leases of short term and low value assets. However a lessor classifies leases as either a finance lease or an operating lease.

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

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

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

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

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

2.5.3. 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 :

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Financial assets held for trading
  - 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 price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.
Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.
Derivatives include forwards, futures, swaps and options.

3.5. 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 intstruments measured at fair value through other comprehensive income. The Bank shall make an irrevocably election to measure the investments in equity instruments at initial recognition on an share-by-share basis. Equity instruments at fair value through other comprehensive income are measured at fair value and the total changes in fair value are presented in other comprehensive income. Amounts presented in other comprehensive income are not transferred to profit or loss, even if the investment were sold. The dividends earned on equity instruments are recognised in 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 receivables measured at amortized cost are initially recognized at fair value on the date of settlement, 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 accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

3.8. 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 provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

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

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

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

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

Following elements of costs that are not costs of an item of tangible asset are:

- costs of opening a new facility,
- costs of introducing a new product or service,
- costs of conducting business in a new location or with a new class of customer,
- administration and other general overhead costs.

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

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

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

Intangible assets have a definite useful life, excluding goodwill.

All figures in tables are in HUF million except otherwise noted

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 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.

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The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank use the lesse's incremental borrowing rate. Typically the Bank use its own incremental borrowing rate to recognise lease liabilities. At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

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

After the commencement date, the Bank shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Bank shall remeasure the lease liability, if either:

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

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

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

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the statement of profit or loss as costs using the straight-line method during the life of the lease.
The Bank does not have right-of-use assets that meet the definition of investment property.
In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases

of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid. The Bank as a lessee has typically property and company car lease agreements.

The Bank as a lessor

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

Notes to the Separate Financial Statements

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.

3.15. Deffered 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).
Cooperative shares that do not meet the criteria for classification as equity are also included in this category. Cooperative shares are classified as liabilities by the Bank if the owner has indicated that he wishes to redeem them, or if there are several shares embodying different rights and obligations, only the most subordinated shares are considered capital items, the other capital items must be shown as liabilities.

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 asssets

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

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

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

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

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

3.20.2. 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 whitin 'Treasury shares' at the date, when a supreme member made a decision on repurchasing. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss. In case of beside the decision of repurchasing, if a supreme member is made a decision at the same time to call back shares, then the Bank is reclassified these shares to the liabilities till the date of the effective cancellation.

3.24. 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 istruments 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 commisions when they relate and have to be included in the amortised cost modell shall immediatly recognised in profit or loss.
Fees and commision incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.26. Contingent liabilities / contingent assets

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

3.27. 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 are received after the balance sheet date. The Bank shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Non-adjusting events after the balance sheet date are incidences that are indicative of conditions that arose after the balance sheet date. The Bank shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date, but its expected effects are disclosed in the Notes when material.

3.28. 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. Banktax

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

3.32. 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)

Deffered 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.

3.35. Change in estimates

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

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2019	2018
Interest income		
Financial assets held for trading	3,345	10,892
Non-trading financial assets mandatorily at fair value through profit or loss	-	28
Financial assets at fair value through other comprehensive income	7,040	3,367
Financial assets at amortised cost*	2,855	4,922
Derivatives – Hedge accounting, interest rate risk	199	664
Other assets	-	-
Interest income on financial liabilities	112	-
Total	**13,551**	**19,873**

	2019	2018
Interest expense		
Financial liabilities held for trading	1,619	3,198
Financial liabilities measured at amortised cost	2,805	1,045
Derivatives – Hedge accounting, interest rate risk	930	-
Other liabilities	868	1,548
Interest expense on financial assets	107	-
Total	**6,329**	**5,791**

* A main part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., this effect shown in the decrease of Interest income.

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 maintenance fee income	2,400	2,803
Lending commission income	608	784
Security services fee income	6,460	5,481
Card business commission	1,494	1,411
Guarantee fees	145	164
Agency fee income	523	1,188
Treasury services	3,222	1,706
Total	**14,852**	**13,537**

	2019	2018
Fee and commission expense		
Agency fee expense	339	772
Card business	901	648
Security services fee expense	4,030	3,669
Treasury services	1,518	1,512
Fees and commissions to banks and to clearing house	412	405
Lending commission expense	57	95
Postal giro (PEK) commission	901	815
Other	91	-
Total	**8,249**	**7,916**

6. LOSS/PROFIT FROM FOREIGN EXCHANGE TRANSACTIONS

	2019	2018
FX transactions realized (loss)	(940)	(395)
FX transactions non-realized (loss)/gains	(236)	1,677
(Loss)/Profit from foreign exchange transactions	**(1,176)**	**1,282**

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

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	2,200	227
Gains or (losses) on derecognition of financial assets at amortised cost, net*	8,617	(178)
Gains on derecognition of financial liabilities at amortised cost, net	-	1
Total	**10,817**	**50**

* A main part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., the effect of the stock transfer shown in the Gains or losses on derecognition of financial assets at amortised cost.

8. OTHER OPERATING INCOME AND EXPENSE

	2019	2018
Other operating income, net		
Provisions or reversal of provisions on other liabilities (Note 24)	58	86
Income on mediated services	1,232	965
Net profit or loss on sold property	9	25
Rental income on property	130	18
Invoiced expenses and services*	4,439	437
Non-repayable assets received	1	4
Tax refunds for previous years	300	177
Loss on damages compensations received	1	1
Other income for previous years	90	-
Other	46	123
Total	**6,306**	**1,836**

**Cost sharing income based on the framework of SLA settlement aggrement 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	-	58
Donation	194	614
Expenses related to portfolio transfer	374	48
Recognised VAT among the expenses related tangible assets	5	13
Total	**573**	**733**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Staff costs	9,854	6,238
Material cost and expenses	673	516
Marketing and advertising	455	286
Data retrieval fees	413	114
Licence fee	351	232
Rental fee	138	14
Depreciation of tangible assets	778	293
Depreciation of intangible assets	146	124
Consultancy, advisory and legal fees	3,785	3,899
Expenses related to IT systems	2,782	2,100
Institutional protection fees, supervisory fees, membership fees	2,063	1,546
Bank security service fee	280	2
Stock market fees	31	20
Insurance fees	32	26
Taxes, duties	1,461	1,944
Other	235	238
Total	**23,477**	**17,592**

All figures in tables are in HUF million except otherwise noted

10. STAFF COSTS

	2019	2018
Wages and salaries	7,385	4,633
Wages contribution	1,711	1,159
Other personnel related payments	758	446
Total	**9,854**	**6,238**

Wages contribution is payable by the Bank based on gross wages and salaries paid to employees. The consolidated full time head count of the Bank at the end of the reporting period was 573 (2018: 437).

11. INCOME TAX

	31 December 2019	31 December 2018
Current income tax	**(623)**	**(193)**
Corporate income tax	(623)	(193)
Deferred tax expense	**(13)**	**(355)**
Total	**(636)**	**(548)**

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 and loss before tax	*8,960*	*8,612*
Calculated corporate income tax (9%)	(806)	(775)
Items modifying the Hungarian tax base	(170)	227
Total	**(636)**	**(548)**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

	31 December 2019				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Items modifying corporate tax base	84	-	84	142	(30)
Effect of corporate tax of IFRS adoption	309	-	309	(155)	-
Effect of local business tax of IFRS adoption	8	-	8	-	-
Net deferred tax position	**401**	**-**	**401**	**(13)**	**(30)**

	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	(28)	-	(28)	(826)	(798)
Effect of corporate tax of IFRS adoption	464	-	464	464	-
Effect of local business tax of IFRS adoption	8	-	8	8	-
Net deferred tax position	**444**	**-**	**444**	**(354)**	**-**

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

All figures in tables are in HUF million except otherwise noted

12. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2019	31 December 2018
Items that will not be reclassified to profit or loss	**2,764**	**4,453**
Fair value changes of equity instruments measured at fair value through other comprehensive income	2,794	4,446
Income tax relating to items that will not be reclassified	(30)	7
Items that may be reclassified to profit or loss	**3,501**	**(1,600)**
Cash flow hedges (effective portion)	(77)	-
Hedging instruments	(4,743)	-
Debt instruments at fair value through other comprehensive income	8,321	(1,908)
Income tax relating to items that may be reclassified to profit or (-) loss	-	308
Total comprehensive income	**6,265**	**2,853**

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

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

	31 December 2019	31 December 2018	1 January 2018
Cash on hand	6,933	7,584	5,474
Cash balances at central banks	30,916	17,457	17,801
Other demand deposits	12,878	10,816	10,910
Total	**50,727**	**35,857**	**34,185**

All figures in tables are in HUF million except otherwise noted

14. FINANCIAL ASSETS HELD FOR TRADING

	31 December 2019	31 December 2018	1 January 2018
Derivatives**	3,274	9,120	3,323
Equity instruments*	564	9	-
Discount government bonds	21,940	-	-
Government bonds	7,766	45,617	37,235
Mortgage bonds	3,643	1,745	-
Other bonds	61	636	32,252
Total	**37,248**	**57,127**	**72,810**

* The Equity instruments contain exchange treasury shares held for trading and open-end shares in investment funds.

** See details about financial assets and financial liabilities from Derivatives held for trading in Note 28.3.

15. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THRUGH PROFIT OR LOSS

	31 December 2019	31 December 2018	1 January 2018
Equity instruments	22,677	6,084	-
Loans*	238	932	1,555
Total	**22,915**	**7,016**	**1,555**

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

The Bank are reported in Equity instruments mandatorily at fair value through profit or loss the following securities as at 31 December 2019.

Shares	Fair Value at 31 December 2019
BSE shares	4,367
Open-end shares in investment funds	18,310
Total	**22,677**

All figures in tables are in HUF million except otherwise noted

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018	1 January 2018
Equity instruments	8,065	5,092	10,718
Government bonds	238,779	369,064	116,262
Discount government bonds	-	9,947	39,857
Mortgage bonds	3,149	12,369	-
Other debt securities	41,681	53,424	33,954
Total	**291,674**	**449,896**	**200,791**

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

Shares	Fair Value at 31 December 2019
Garantiqua Hitelgarancia Ltd.	10
Magyar Posta Ltd.	50
Takarék Egyesült Szövetkezet	30
Mastercard Incorporated	7,491
S.W.I.T. SCRL	5
Visa Inc. Class C Series/Common Stock	42
VISA Inc. C Convertible Participating Preferres Stock	437
Total	**8,065**

The Bank have been reported dividend of HUF 19 million in equity instruments at fair value through other comprehensive income during the reporting period.
The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

All figures in tables are in HUF million except otherwise noted

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Debt securities	20,405	-	-
Loans at amortised cost gross*	578	313,211	213,051
from this: Retail	-	*33,106*	*32,734*
from this: Corporate	*578*	*277,507*	*179,662*
from this: Local government	-	*2,598*	*1,015*
Impairment on loans at amortised cost	-	(8,645)	(8,852)
Deposit and loans from banks gross	192,821	231,100	274,015
Impairment on deposit and loans from banks	(24)	(26)	-
Advances gross	7,926	1,880	3,493
Impairment on advances	(613)	(579)	(504)
Total	**221,093**	**536,941**	**481,203**

* A big part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., this effect shown in the decrease of the loan portfolio.

Impairment under collective and individual assessment

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	0	0	0	0
Collective	121	0	613	734
Total	**121**	**0**	**613**	**734**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	0	0	2,851	2,851
Collective	5,131	240	1,111	6,482
Total	**5,131**	**240**	**3,962**	**9,333**

All figures in tables are in HUF million except otherwise noted

18. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Equity interests of the Bank in subsidiaries, joint ventures and associates:

	31 December 2019		31 December 2018	
	Gross book value	Held %	Gross book value	Held %
Takarék Faktorház Ltd.	591	100 %	591	100 %
TAKINFO Ltd.	110	52 %	110	52 %
MATAK-EL Ltd.	118	59 %	118	59 %
Diófa Alapkezelő Ltd.*	-	-	3,063	88 %
Takarék Invest Ltd.	6,965	100 %	6,965	100 %
Takarék Ingatlan Ltd.	407	100 %	407	100 %
Takarékbank Ltd.	87,054	73 %	-	-
Mohácsi Takarékbank	-	-	2,791	100 %
Pannon Takarékbank	-	-	6,978	83 %
Takarék Kereskedelmi Bank	-	-	4,502	7 %
Takarék Mortgage Bank Plc.	57,877	86 %	21,214	37 %
Takarék Központi Követeléskezelő	191	100 %	183	97 %
TAK-INVEST Ltd.	272	93 %	254	88 %
DBH Investment	150	100 %	150	100 %
Takarék Kockázati Tőkealap	1,101	-	-	-
Takarék Mezőgazdasági Tőkealap	3,000	-	-	-
Takarék Zártkörű Befektetési Alap	10,835	-	6,431	-
MPT Security Ltd.	1,320	40 %	1,320	40 %
Takarékinfo Központi Adatfeldolgozó Ltd.	700	14 %	700	14 %
Subsidiaries, joint ventures and associates gross	**170,691**	**-**	**55,834**	**-**
Impairment	(3,096)	-	(12)	-
Total	**167,595**	**-**	**55,822**	**-**

* The MTB, as the majority owner entered into an agreement about selling Diófa Alapkezelő Ltd. on 30 December 2019, therefore the above mentioned shares in amount of HUF 3,063 million have been reclassified into Non-current assets classified as held for sale.

All figures in tables are in HUF million except otherwise noted

The changes of the impairment losses in subsidiries and joint ventures are the follows.

	31 December 2019	31 December 2018	1 January 2018
Balance as at 1 January	12	45	44
Loss allowance	3,168	12	1
Reversal of loss allowance	(84)	(45)	0
Release of loss allowance	0	0	0
Closing balance	**3,096**	**12**	**45**

Dividends received from subsidiaries and joint ventures was HUF 499 million in 2019, and HUF 431 million in 2018.

19. TANGIBLE ASSETS

31 December 2019	Property	Plant and equ-ipment	Total tangible assets
Gross value			
Opening balance	2,501	1,909	4,410
Increase	9	707	716
Decrease	-	(388)	(388)
Closing balance	2,510	(2,228)	4,738
Depreciation			
Opening balance	732	1,694	2,426
Annual depreciation	56	171	227
Decrease	-	(41)	(41)
Closing balance	788	1,824	2,612
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**1,722**	**404**	**2,126**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Property	Plant and equipment	Total tangible assets
Gross value			
Opening balance	2,415	1,838	4,253
Increase	95	158	253
Decrease	(9)	(87)	(96)
Closing balance	2,501	1,909	4,410
Depreciation			
Opening balance	681	1,628	2,309
Annual depreciation	60	141	201
Decrease	(9)	(75)	(84)
Closing balance	732	1,694	2,426
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**1,769**	**215**	**1,984**

The tables contains the tangible assets of the Bank expected the right-of-use assets.
Tangible assets of the separate financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 2,100 million as at 31 December 2019 and HUF 640 million as at 31 December 2018.
The right-of-use assets under IFRS 16 have been reported in Note 20.
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 2018 and 2019.

All figures in tables are in HUF million except otherwise noted

20. INTANGIBLE ASSETS

31 December 2019	Property rights	Intellectual products	Investment intangible assets	Total
Gross value				
Opening balance	305	2,746	-	3,051
Increase	85	41	154	280
Decrease	-	-	(126)	(126)
Closing balance	**390**	**2,787**	**28**	**3,205**
Depreciation				
Opening balance	228	2,236	-	2,464
Annual depreciation	34	112	-	146
Decrease	-	-	-	-
Closing balance	**262**	**2,348**	**-**	**2,610**
Impairment				
Opening balance	-	-	-	-
Increase	-	-	-	-
Decrease	-	-	-	-
Closing balance	-	-	-	-
Net value	**128**	**439**	**28**	**595**

31 December 2018	Property rights	Intellectual products	Investment intangible assets	Total
Gross value				
Opening balance	287	2,631	94	3,012
Increase	18	115	973	1,106
Decrease	-	-	(1,067)	(1,067)
Closing balance	**305**	**2,746**	**-**	**3,051**
Depreciation				
Opening balance	206	2,134	-	2,340
Annual depreciation	22	102	-	124
Decrease	-	-	-	-
Closing balance	**228**	**2,236**	**-**	**2,464**
Impairment				
Opening balance	-	-	-	-
Gross value	-	-	-	-
Opening balance	-	-	-	-
Increase	-	-	-	-
Net value	**77**	**510**	**-**	**587**

All figures in tables are in HUF million except otherwise noted

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 2018 and 2019.

21. IFRS 16 LEASES

Right-of-use assets

	31 December 2019	31 December 2018	1 January 2018
Owned property, plant and equipment	2,126	1,984	1,944
Right-of-use assets, expect investment properties	2,100	640	360
Total property, plant and equipment	**4,226**	**2,624**	**2,304**

Lease liabilities

Lease liabilities presented in the statement of financial position

	31 December 2019	31 December 2018	1 January 2018
Short term	695	227	92
Long term	1,446	415	268
Total lease liabilities	**2,141**	**642**	**360**

Maturity analysis - undiscounted contractual payments

	31 December 2019	31 December 2018	1 January 2018
Up to 1 year	712	241	95
1 year to 5 years	1,463	442	273
Over 5 years	-	6	-
Total undiscounted lease liabilities	**2,175**	**689**	**368**

All figures in tables are in HUF million except otherwise noted

Right-of-use assets

	Property	Company Car	Total
Opening balance at 1 January 2018	**128**	**232**	**360**
Increase	127	245	372
Amortization for the year	(32)	(60)	(92)
Decrease	-	-	-
Balance at 31 December 2018	**223**	**417**	**640**
Increase	1,711	388	2,099
Amortization for the year	(373)	(178)	(551)
Decrease	(39)	(49)	(88)
Balance at 31 December 2019	**1,522**	**578**	**2,100**

Total cash outflow for leases

	31 December 2019	31 December 2018
Total cash outflow for leases	(668)	(93)

Items related to lease liabilities presented in profit or loss

	31 December 2019	31 December 2018
Interest expense on the lease liabilities	(18)	(4)
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	-
Income from subleasing right-of-use assets	-	-
Expenses related to short-term leases	(17)	-
Expenses related to leases of low-value assets, expect the expense relating to short-term leases of low-value assets	(67)	(55)
Gains or losses arising from sale and leaseback transactions	-	-
	(102)	**(59)**

Items presented in the statement of cash flows

	31 December 2019	31 December 2018
Interest expense on the lease liabilities	(18)	(4)
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	(84)	(55)
Cash payments for the principal portion of the lease liability	(584)	(93)

All figures in tables are in HUF million except otherwise noted

22. OTHER ASSETS

	31 December 2019	31 December 2018	1 January 2018
Advances for intangible assets	-	78	226
Mediated services	2,470	2,601	936
Commission deals	-	93	33
Repossessed collateral	-	-	92
Other inventories (materials, goods)	173	1	7
Prepaid expenses*	7,004	3,208	2,399
Reclaimable taxes	8	337	21
Receivables from cost sharing	314	-	-
Share acquisition	-	500	55
Account for changes of prices on forward deals	0	98	-
Advances for payables	65	34	1,207
Accrued amount of fair value difference at initial recognition of loans under Funding for Growth Scheme	4,433	7,206	876
Receivables from Health Insurance	12	4	5
Total	**14,479**	**14,160**	**5,857**

** Significant part of the large inrease of Prepaid expenses are cost sharing due to accrual of accounts based on the framework of SLA settlement aggrement among the members of the Bank group.*

23. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2019	31 December 2018	1 January 2018
Deposits*	573,973	1,002,754	657,621
Loans received	122,813	66,462	104,444
Other financial liabilities	62,097	44,168	43,448
Total	**758,883**	**1,113,384**	**805,513**

** A big part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., this effect shown in the decrease of the Deposit portfolio.*

All figures in tables are in HUF million except otherwise noted

24. 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*	Total
Opening balance at 1 January 2019	**932**	**204**	**536**	**1,672**
Increase in the period	1,240	772	-	2,005
Utilization in the period	(1,871)	(560)	(65)	(2,489)
Closing balance at 31 December 2019	**301**	**416**	**471**	**1,188**

**Provision are set up for benefit plan, reorganisation, and severence payments related liabilities.*

2018	Credit risk provision	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2018	**1,530**	**159**	**796**	**2,485**
Increase in the period	-	45	-	45
Utilization in the period	(598)	-	(260)	(858)
Closing balance at 31 December 2018	**932**	**204**	**536**	**1,672**

All figures in tables are in HUF million except otherwise noted

25. OTHER LIABILITIES

	31 December 2019	31 December 2018	1 January 2018
Taxes payable	810	485	564
Income accounting	1,441	1,317	222
Accrued expenses	6,562	4,955	4,761
Jubilee benefit obligation	22	17	13
Commission settlements	355	-	-
Advances received from customers	-	-	11
Deposits paid by customers	-	6	5
Accrued part of disbursed liabilities under Funding for Growth Scheme	4,840	8,036	1,948
Others	-	320	79
Total	**14,030**	**15,136**	**7,603**

26. SHARE CAPITAL

26.1. Ownership structure

The table shows the structure of the shares as follows:

Type of shares	Number of shares (pieces)		Face value		Total face value of shares (thousand HUF)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Voting preference shares B	1	1	2	2	2	2
Voting preference shares C	160	160	2	2	320	320
Ordinary shares	1,694,957	1,694,957	2	2	3,389,914	3,389,914
Treasury shares	408,323	360,700				
Total	**1,695,118**	**1,695,118**	**-**	**-**	**3,390,236**	**3,390,236**

Shareholder	31 December 2019 Holding (%)	31 December 2018 Holding (%)
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.	75,91	56,58
Cooperative Credit Institutions and their legal successors	4,65	23,97
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.(Treasury shares)	19,45	19,45
Magyar Fejlesztési Bank Ltd.	0,00	0,0001
Other owners	0,00	0,0023
Total	**100,00**	**100,00**

Shareholders' name, address and voting rights on 31 December 2019:

Name	Address (Central office)	Preference shares pieces	Ordinary shares pieces	Treasury shares pieces	Face value	Holding %
Magyar Takarék Befektetési és Vagyongazdálkodási Ltd.	Budapest	1	1 286 693	1 286 694	2 573 388 000	75,91
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	Budapest	0	329 659	329 659	659 318 000	19,45%
MFB Magyar Fejlesztési Bank Ltd.	Budapest	1	0	1	2 000	0,00%
Takarékbank Ltd.	Budapest	158	78 605	78 763	157 526 000	4,65%
Takarék Mortgage Bank Plc.	Budapest	1	0	1	2 000	0,00%

On September 23, 2015 Takarék Mortgage Bank Plc. and Takarék Commercial Bank Ltd. entered into the Integration of Cooperative Credit Institution. Takarék Commercial Bank at the effective date 31 October 2019 was merged into Takarékbank Ltd. and was terminated with succession. Furthermore the Takarék Mortgage Bank has 1 piece of voting preference share.

In the MTB Bank of Hungarian Saving Cooperatives Co. Ltd. has 1 owner with more than 10 % ownership, its number of shares are 1,286,694 pieces, its controlling interest are 75,91 %, in addition there are no owner with more than 5 % ownership.

All figures in tables are in HUF million except otherwise noted

26.2. Treasury shares purchased

	31 December 2019	31 December 2018	1 Januar 2018
Opening balance	2,539	1,531	1,531
Purchase	-	1,008	-
Closing balance	**2,539**	**2,539**	**1,531**

In its Resolution No. 10/2017 accepted adopted on 26 April 2017, the General Meeting of MTB Bank of Hungarian Saving Cooperatives Co. Ltd. authorized the Board of Directors of the Bank to repurchase a maximum of 422,714 Series “A” ordinary shares by 26 October 2018 at the latest. During the above period, the Bank repurchased a total of 329,659 shares from cooperative credit institutions from the authorized facility, and a further 78,763 shares owned by institutions in which MTB has become the majority shareholder in the meantime. In 2019, the stock of repurchased shares did not change.

26.3. Other reserve

	31 December 2019	31 December 2018	1 January 2018
General reserve	4,914	4,082	3,311
Other retained earnings	8	8	8
Closing balance	**4,992**	**4,090**	**3,319**

26.3.1. General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 4,914 million as at 31 December 2019 (General reserve was HUF 4,082 million as at 31 December 2018).

All figures in tables are in HUF million except otherwise noted

26.4. Cumulated other comprehensive income

	31 December 2019	31 December 2018
Opening balance	4,113	1,195
Cumulated other comprehensive income	**6,265**	**2,853**
Items that will not be reclassified to profit or loss	**2,764**	**4,453**
Fair value changes of equity instruments measured at fair value through other comprehensive income	2,794	4,446
Income tax relating to items that will not be reclassified	(30)	7
Items that may be reclassified to profit or loss	**3,501**	**(1,600)**
Cash flow hedges (effective portion)	(77)	-
Hedging instruments	(4,743)	-
Debt instruments at fair value through other compre-hensive income	8,321	(1,908)
Income tax relating to items that may be reclassified to profit or loss	-	308
Closing balance	**10,378**	**4,113**

27. CONTINGENT LIABILITY

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*	18,185	21,807	18,725
Loan commitments*	68,772	148,769	157,857
Contingent liabilties from litigation	-	50	1,612
Contingent liabilities from other contracts	3,703	-	-
Total	**90,660**	**170,626**	**178,194**

*A big part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., this effect shown in the decrease of the Loan commitments and Guarantees.

All figures in tables are in HUF million except otherwise noted

28. 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.

28.1. Loans and advances

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

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

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

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

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

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

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

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.
When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

	31 December 2019		31 December 2018		1 January 2018	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
Loans and advances	200,688	200,688	536,941	526,941	481,203	481,203

28.2. 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.

28.3. 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.

All figures in tables are in HUF million except otherwise noted

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:
- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the invesment timeline and the type of investment (for example in measuring the fair value of short term financial investment the current mar-ket sentiment to be better reflected a some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valua-tion models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

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

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

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

	31 December 2019		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	7,194	4,795	25,259
Non-trading financial assets mandatorily at fair value through profit or loss	22,370	307	238
Securities at fair value through other comprehensive income	288,450	2,650	574
Derivatives – Hedge accounting	-	344	-
Total assets carried at fair value	**318,014**	**8,097**	**26,072**

	31 December 2019		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	36	4,968	-
Derivatives – Hedge accounting	-	2,003	-
Total liabilities carried at fair value	**36**	**6,971**	**-**

All figures in tables are in HUF million except otherwise noted

	31 December 2018		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	38,529	10,694	7,904
Non-trading financial assets mandatorily at fair value through profit or loss	3,013	3,071	932
Securities at fair value through other comprehensive income	266,379	9,363	174,154
Derivatives – Hedge accounting	-	411	-
Total assets carried at fair value	**307,921**	**23,539**	**182,991**

	31 December 2018		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	36	5,090	-
Derivatives – Hedge accounting	-	101	-
Total liabilities carried at fair value	**36**	**5,191**	**-**

Instruments' movements in Level 3 2018	Financial assets held for trading	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	**-**	**1,555**	**27,832**
Statement of profit or loss			
(Loss)/Profit	-	-	-
Other comprehensive income	-	-	(119)
Transactions			
Purchase/portfolio growth	7,904	-	146,441
Sale of assets/Settlement/ Derecognition/	-	(623)	-
Tansfers			
Transfer to Level 3	-	-	-
Transfer from Level 3	-	-	-
Closing balance at 31 December 2018	**7,904**	**932**	**174,154**

All figures in tables are in HUF million except otherwise noted

Instruments' movements in Level 3 2019	Financial assets held for trading	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	**7,904**	**932**	**174,154**
Statement of profit or loss			
(Loss)/Profit	519	52	858
Other comprehensive income		-	-
Transactions			
Purchase/portfolio growth	16,836	-	-
Sale of assets/Settlement/ Derecognition/		(746)	(174,438)
Tansfers			
Transfer to Level 3	-	-	-
Transfer from Level 3	-	-	-
Closing balance at 31 December 2019	**25,259**	**238**	**574**

28.4. Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. 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
Swap deals	246	246	29,841	17,480
FX futures deals	14	4	2,287	2,460
FX margin deals	342	252	51,910	26,113
Government bonds margin deals	19	133	2,920	26,476
IRS deals	697	6,169	31,264	284,134
CCIRS deals	22	-	2,342	-
FX options	322	185	62,088	44,337
Shares options	1,606	2,104	8,611	5,740
Other derivative deals	5	27	692	1,099
Total trading derivative assets	**3,274**	**9,120**	**191,955**	**407,839**
Hedge derivative deals	344	411	315,165	6,757
Total derivative financial assets	**3,618**	**9,531**	**507,120**	**414,596**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Swap deals	52	182	15,141	34,920
FX futures deals	36	24	6,066	7,093
FX margin deals	624	380	39,205	29,866
Government bonds margin deals	46	88	14,298	11,162
IRS deals	1,048	2,055	48,684	71,275
CCIRS deals	22	0	2,314	0
FX options	322	185	61,231	43,874
Shares options	2,839	2,198	8,611	5,740
Other derivative deals	15	14	2,183	180
Total trading derivative liabilities	**5,004**	**5,126**	**197,733**	**204,110**
Hedge derivative deals	2,003	101	47,601	5,204
Total derivative financial liabilities	**7,007**	**5,277**	**245,334**	**209,314**

29. RISK MANAGEMENT

29.1. Overview

MTB Bank of Hungarian Saving Cooperatives Co. 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 responsibility for each other's obligations according to Ptk. The joint and several responsibility system cover also all the receivables to Integration Organisation and its members, independently the date of its occurrence.

Based on the Section 5 of Article 1 of 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 istitutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

All figures in tables are in HUF million except otherwise noted

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 MTB Bank of Hungarian Saving Cooperatives Co. 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 MTB Bank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

The Risk Strategy is based on the following main pillars:

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

The exposure is basically credit-, liquidity-, market- and operational risks.
The MTB under the Act Hpt., services provided to consumers and economic operators and the outstanding business portfolio was transferred to Takarékbank Ltd. on the effective date of 1 May 2019 (Registry number: 01 10 140275), with this action the company has no more own credit risk exposure. However the services under the Act Bszt., and treasury activities are provided by the MTB furthermore.

29.2. Risk management structure

Board of Directors
The Boards of Directors are responsible for the MTB 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 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 MTB. The Committee shall in particular:

a) preparing an expert opinion for senior executives on MTB'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 MTB'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 MTB's risks, capital and liquidity position, and the probability and timing of incomes.

Supervisory Board

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

Assets and Liabilities Committe (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 MTB 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 MTB and the Integration the liquidity position, makes suggestion for the interest policy. In order to ensure the prudential requirements, the Bank shall established and maintained the conformity between income and liquity.

Credit Committee (CC)

The committee makes decisions as it is determined in the internal regulation, it has competency for decisions in cases handled by the Credit Risk Management Regulation (Annex for Risk Decision Competence Order), and makes decision in case of credit risk transactions which amounts reached or exceed the defined submission limit for some cooperative credit institutions.

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 MTB’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 MTB's Supervisory Board and the Management of the MTB.

Risk evaluation and reporting system

The MTB 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. The MTB collects and analyses data about events and losses related to risk from operation. As a result of risk assessment the MTB 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 MTB and Takarék Groups on a quarterly basis.

29.3. Risk mitigation

Interest rate and exchange rate risks

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

Credit risk

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

The MTB was transferred its loan portfolio to Takarékbank Ltd. on 1 May 2019, so its credit risk exposure mainly have been ceased, and its basic business activity does not contain new credit risk exposure. However the right exists furthermore, the internal regulatory background is given.

Before 1 May 2019 MTB have been rated the creditworthiness of their clients and partners and classifys them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitored client and partner rating on an ongoing basis.

The MTB applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio. Before the period 1 May 2019 was established the collateral value of real estate covering mortgage loans by the Takarék Ingatlan Ltd., which is the part of the Takarék Group.

The MTB are minimized risks towards partner banks by means of bilateral agreements.

29.4. Credit risk

29.4.1. 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:

MTB 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:

MTB 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:

MTB 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, MTB 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

MTB has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.

The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The MTB 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

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

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

Purchased or Originated Credit Impaired Financial Assets

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

Writte-off

Loans and debt securities are written off when the MTB has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the 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.

29.4.2. Model Descriptions - Expected Credit Loss

Stage determination

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

Rating-Related Indicators:

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

Process-Related Indicators:

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

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

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The MTB 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 MTB'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 MTB 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 MTB'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 MTB 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	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Cash on hand	6,933	-	-	-	6,933
Cash balances at central banks	30,916	-	-	-	30,916
Investment grade	*30,916*	-	-	-	*30,916*
Other demand deposits	12,879	-	-	-	12,879
Investment grade	*12,879*	-	-	-	*12,879*
Securities at fair value through other comprehensive income	283,627	-	-	-	283,627
Investment grade	*283,627*	-	-	-	*283,627*
Securities measured at amortised cost	20,483	-	-	-	20,483
Investment grade	*20,483*	-	-	-	*20,483*
Due from banks	192,821	-	-	-	192,821
Investment grade	*192,821*	-	-	-	*192,821*
Corporate	*578*	-	-	-	*578*
Investment grade	*578*	-	-	-	*578*

31 December 2019 (continued)	Stage 1	Stage 2	Stage 3	POCI	To tal

All figures in tables are in HUF million except otherwise noted

	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Advances	*7,313*	-	*613*	-	*7,926*
Investment grade	*7,313*	-	-	-	*7,313*
Default grade	*0*	-	*613*	-	*613*
Total gross carrying amount	***555,550***	**-**	***613***	**-**	**556,163**
Loss allowance	*121*	-	*613*	-	*734*
Carrying amount	**555,429**	**-**	**-**	**-**	**555,429**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	7,584	-	-	-	7,584
Cash balances at central banks	17,456	-	-	-	17,456
Other demand deposits	10,817	-	-	-	10,817
Securities at fair value through other comprehensive income	442,085	-	-	-	442,085
Due from banks	231,100	-	-	-	231,100
Retail	33,024	3	79	-	33,106
Corporate	270,727	611	6,119	-	277,507
Local government	2,598	-	-	-	187,940
Advances	1,302	-	579	-	1,881
Investment grade	1,302	-	-	-	1,302
*Default grade**	-	-	*579*	-	579
Total gross carrying amount	**1,016, 693**	**664**	**6,777**	**-**	**1,024,134**
Loss allowance	5,131	240	3,962	-	9,333
Carrying amount	**1,011,562**	**424**	**2,815**	**-**	**1,014,801**

*All items expected the labeled one are classified in Investment grade.

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)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Cash on hand	5,474	-	-	-	5,474
Cash balances at central banks	17,801	-	-	-	17,801
Other demand deposits	10,910	-	-	-	10,910
Securities at fair value through other comprehensive income	190,073	-	-	-	190,073
Due from banks	274,015	-	-	-	274,015
Retail	32,275	14	85	-	32,374
Corporate	171,680	2 750	5,232	-	179,662
Local government	1,015	-	-	-	*1,015*
Advances	*2,989*	-	-	-	*2,989*
Total gross carrying amount	**706,232**	**2,764**	**5,317**	**-**	**714,313**
Loss allowance	4,676	491	3,685	-	8,852
Carrying amount	**701,556**	**2,273**	**1,632**	**-**	**705,461**

All items are classified in Investment grade.

All figures in tables are in HUF million except otherwise noted

Impairment

31 December 2019	Gross exposure	Impairment	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)				
Advance	613	613	-	-
Total credit-impaired assets	**613**	**613**	**-**	**-**

Impairment movement table

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	
Impairment loss as at 1 January 2018	**4,676**	**491**	**3,685**	**-**	**8,852**
New financial assets originated or purchased	5,131	240	3,962	-	9,333
Changes in PDs/LGDs/EADs	-	-	-	-	-
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period	(4,676)	(491)	(3,685)	-	(8,852)
Impairment loss as at 31 December 2018	**5,131**	**240**	**3,962**	**-**	**9,333**

All figures in tables are in HUF million except otherwise noted

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	
Impairment loss as at 1 January 2019	**5,131**	**240**	**3,962**	**-**	**9.333**
New financial assets originated or purchased	34	-	38	-	72
Changes in PDs/LGDs/EADs	3	-	-	-	3
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(5,047)	(240)	(3,387)	-	(8,674)
Impairment loss as at 31 December 2019	**121**	**-**	**613**	**-**	**734**

Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Provision at 1 January 2018	**1,315**	**-**	**-**	**1,315**
Movements with P&L impact				
New financial assets originated or purchased	913	-	-	913
Changes in PDs/LGDs/EADs	-	-	-	-
Exchange rate and other movements	19	-	-	19
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(1,315)	-	-	(1,315)
Provision as at 31 December 2018	**932**	**-**	**-**	**932**

All figures in tables are in HUF million except otherwise noted

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	**932**	**-**	**-**	**932**
Movements with P&L impact				
New financial assets originated or purchased	10	-	-	**10**
Changes in PDs/LGDs/EADs	276	-	-	276
Exchange rate and other movements	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(917)	-	-	(917)
Provision as at 31 December 2019	**301**	**-**	**-**	**301**

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	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Interbank	81,197	-	-	81,197
Total exposure to credit risk	**81,197**	**-**	**-**	**81,197**

A main part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate and retail sectors was transferred to Takarékbank Ltd., this effect shown in the decrease of Interest income.

1 December 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	40	-	-	40
Corporate	120,283	-	-	120,283
Local government	4,401	-	-	4,401
Interbank	64,036	-	-	64,036
Total exposure to credit risk	**188,760**	**-**	**-**	**188,760**

1 January 2018	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	27	-	-	27
Corporate	105,013	4	-	105,017
Local government	3,838	-	-	3,838
Interbank	2,349	-	-	2,349
Total exposure to credit risk	**111,227**	**4**	**-**	**111,231**

All figures in tables are in HUF million except otherwise noted

29.4.3. Forborne loans

MTB 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.

MTB 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 MTB would have not provided if the debtor had no financial difficulties,
b) partial or complete refinancing of loan agreement which the Bank would have not provided if the debtor had no financial difficulties.
c) when the discrepancy between the original and modified contractual terms are in favor of the debtor and the terms of these modified terms are more favorable than the ones that the MTB 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 MTB's records are considered as restructured loans.

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

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 MTB considers the following cases as non-performing restructuring:

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

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

Change in monitoring/recovery of restructured loans:

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

Rating of restructured loans:

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

An analysis of forborne loan portfolio by loan types

31 December 2019	Gross value	Impairment	Carrying amount
Retail loans	-	-	-
Corporate loans	-	-	-
Total	**-**	**-**	**-**

A big part of the contractual portfolio being aimed at credit and money loan services offered by the Bank to corporate sector and private individuals was transferred to Takarékbank Ltd., this effect shown in the decrease of the forborne loan portfolio.

31 December 2018	Gross value	Impairment	Carrying amount
Retail loans	25	12	13
Corporate loans	2,083	779	1,304
Total	**2,108**	**791**	**1,317**

1 January 2018	Gross value	Impairment	Carrying amount
Retail loans	29	17	12
Corporate loans	2,946	1,584	1,362
Total	**2,975**	**1,601**	**1,374**

29.4.4. Collaterals and other means for improving the loans portfolio

(Referring to the lending services before 1 May 2019)

Collaterals for lending risk applied by the MTB Bank:

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

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

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

All figures in tables are in HUF million except otherwise noted

Other

In addition to the above the Banks also accept assigned claims, lien on claims, otherwise its credit risk have been decreased with assets that covered loans taking into collaterals.

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	18,658	378,442	103,629
Deposit	837	4,039	3,449
Guarantee	-	15, 005	37,180
Securities	23,725	166,698	143,015
Other collaterals	-	5	113
Total	**43,220**	**564,189**	**287,386**

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.
As the majority of the corporate and retail loan portfolio provided by the Bank was transferred to Takarékbank Ltd., the stock of collateral also decreased.

The table below shows the maximum credit risk exposure:

	31 December 2019	31 December 2018	1 January 2018
Other demand deposit	12,878	10,816	10,910
Financial assets at fair value through other comprehensive income	291,674	449,896	200,791
Retail loans	-	33,106	32,374
Corporate loans	578	277,507	179,662
Local government loans	-	2,598	1,015
Due from banks	192,821	231,100	274,015
Advances	7,926	1,880	3,493
Off-balance sheet commitments	86,957	170,626	178,194
Total gross credit risk exposure	**592,834**	**1,177,529**	**880,454**

All figures in tables are in HUF million except otherwise noted

29.5. 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.
The MTB 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.

29.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The MTB Bank 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 MTB'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	(35)	2	(349)	(872)
EUR	(1)	-	(10)	(25)
USD	-	-	-	-
CHF	-	-	-	-

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.
Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2019 net interest income would decrease by HUF 35 million in case of HUF, it would decrease by HUF 1 million in case of EUR and the changes are not significant in case of USD and CHF.

29.6.1. Share risk management

MTB assumes a trading position in equities. MTB basically holds hedging equity positions in investment services, while it holds a minimum of speculative equity positions.

29.6.2. Exchange rate risk management

The business policy of the MTB Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. The MTB 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 earning before income tax (31 December 2019)	Effect on capital (31 December 2019)	Effect on earning before income tax (31 December 2018)	Effect on capital (31 December 2018)
EUR	(29,218)	(29,218)	3,936	3,936
USD	(23,430)	23,430	2,711	2,711
CHF	4,546	4,546	(3,780)	(3,780)
Other	10,642	10,642	8,405	8,405

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 29,218 thousand, in case of USD items with HUF 23,430 thousand, and in case of CHF items it could increase with HUF 4,546 thousand and in case of other foreign currency items with HUF 10,642 thousand.

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

31 December 2019	HUF	EUR	CHF	Other	Total
Total assets	754,981	46,668	1,693	11,283	814,625
Total liabilities	(704,532)	(68,563)	(992)	(7,021)	(781,108)
Shareholders' equity	(33,517)	-	-	-	(33,517)
Off-balance sheet items	(75,068)	(6,353)	(167)	(3,622)	(85,210)
Position	**(58,136)**	**(28,248)**	**534**	**640**	**(85,210)**

31 December 2018	HUF	EUR	CHF	Other	Total
Total assets	1,091,847	55,791	4,156	9,143	1,160,937
Total liabilities	(1,037,762)	(85,278)	(1,272)	(11,107)	(1,135,419)
Shareholders' equity	(25,518)	-	-	-	(25,518)
Off-balance sheet items	(153,768)	10,921	(223)	(365)	(143,435)
Position	**(125,201)**	**(18,566)**	**2,661**	**(2,329)**	**(143,435)**

1 January 2018	HUF	EUR	CHF	Other	Total

Total assets	759,419	66,407	1,726	11,352	838,904
Total liabilities	(737,122)	(69,491)	(1,310)	(11,257)	(819,180)
Shareholders' equity	(19,724)	-	-	-	(19,724)
Off-balance sheet items	(160,007)	(9,614)	(372)	(49)	(170,042)
Position	**(157,434)**	**(12,698)**	**44**	**46**	**(170,042)**

29.7. 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 behavior of other market participants.

MTB is responsible for the liquidity of the Integration. The most common method of measuring and analyzing liquidity risk is based on cash flow analysis. In the liquidity risk analysis, MTB analyzes 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. MTB 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. MTB 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, MTB operates an early warning system to detect liquidity disturbances in a timely manner.

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities

December 2019	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Financial liabilities held for trading	-	5,004	-	-	-	-	5,004
Deposits	60,112	324,912	-	160,470	28,479	-	573,973
Due to banks	4,744	-	15	73,506	18,815	25,733	128,813
Other financial liabilities	59,956	-	695	1,446	-	-	62,097
Derivatives- Hedge accounting	-	2,003	-	-	-	-	2,003
Provisions	-	-	1,188	-	-	-	1,188
Tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,181	10,816	1,590	443	-	-	14,030
Total banking liabilities	**125,993**	**342,735**	**3,488**	**235,865**	**47,294**	**25,733**	**781,108**

31 December 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Financial liabilities held for trading	-	5,126	-	-	-	-	5,126
Deposits	454,420	305,663	61,271	181,400	-	-	1,002,754
Due to banks	246	798	-	58,216	7,202	-	66,462
Other financial liabilities	43,526	-	227	415	-	-	44,168
Derivatives- Hedge accounting	-	101	-	-	-	-	101
Provisions	-	-	1,672	-	-	-	1,672
Other liabilities	155	8,693	6,271	17	*	-	15,136
Total banking liabilities	**498,347**	**320,381**	**69,441**	**240,048**	**7,202**	**-**	**1,135,419**

All figures in tables are in HUF million except otherwise noted

1 January 2018	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Financial liabilities held for trading	-	2,004	-	-	-	-	2,004
Deposits	243,683	253,137	29,545	131,256	-	-	657,621
Due to banks	-	545	6,613	30,234	66,862	190	104,444
Other financial liabilities	41,444	1,644	92	268	-	-	43,448
Derivatives- Hedge accounting	-	1,575	-	-	-	-	1,575
Provisions	-	-	2,485	-	-	-	2,485
Other liabilities	562	3,669	3,372	-	-	-	7,603
Total banking liabilities	**285,689**	**262,574**	**42,107**	**161,758**	**66,862**	**190**	**819,180**

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	50,727	-	50,727
Financial assets held for trading	36,684	564	37,248
Non-trading financial assets mandatorily at fair value through profit or loss	-	22,915	22,915
Financial assets at fair value through other comprehensive income	-	291,674	291,674
Financial assets at amortised cost	200,688	20,405	221,093
Derivatives – Hedge accounting	344	-	344
Investments in subsidaries, joint ventures and associates	-	167,595	167,595
Tangible assets	-	4,226	4,226
Intangible assets	-	595	595
Tax assets	265	401	666
Other assets	14,479	-	14,479
Non-current assets classified as held for sale	3,063	-	-
Total assets	**306,250**	**508,375**	**814,625**
Liabilities			
Financial liabilities held for trading	5,004	-	5,004
Financial liabilities measured at amortised cost	450,434	308,449	758,883
Derivatives – Hedge accounting	2,003	-	2,003
Provisions	1,188	-	1,188
Other liabilities	13,587	443	14,030
Total liabilities	**472,216**	**308,892**	**781,108**

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	35,857	-	35,857
Financial assets held for trading	57,119	8	57,127
Non-trading financial assets mandatorily at fair value through profit or loss	-	7,016	7,016
Financial assets at fair value through other comprehensive income	-	449,896	449,896
Financial assets at amortised cost	536,941	-	536,941
Derivatives – Hedge accounting	411	-	411
Investments in subsidaries, joint ventures and associates	-	55,822	55,822
Tangible assets	-	2,624	2,624
Intangible assets	-	587	587
Tax assets	-	496	496
Other assets	14,160	-	14,160
Total assets	**644,488**	**516,449**	**1,160,937**
Liabilities			
Financial liabilities held for trading	5,126	-	5,126
Financial liabilities measured at amortised cost	866,151	247,233	1,113,384
Derivatives – Hedge accounting	101	-	101
Provisions	1,672	-	1,672
Other liabilities	15,119	17	15,136
Total liabilities	**888,169**	**247,250**	**1,135,419**

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

29.8. 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

All figures in tables are in HUF million except otherwise noted

data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.
The MTB performed the oprisk self-assessment referring to the key activities.
In accordance with the supervisory expectations the MTB are compiled an inventory of the models used to assess model risks and a product inventory to identify the risks inherent in the products.

29.9. Treatment of risk concentration

(Referring to the lending services before 1 May 2019)

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.
Taking risk in corporate segment can do in compliance with the sectoral limits.

30. 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 the MTB Ltd. in the Disclosure documents of the business year.

31. RELATED PARTY TRANSACTION

For the purpose of the financial statements, MTB Ltd. 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 and other shares of the MTB Bank of Hungarian Saving Cooperatives Co. Ltd. - as at 31 December 2019 is the following:

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

The Bank didn't have any loans to members of the Bank's management bodies as at 31 December 2019, but this amount was HUF 1 million as at 31 December 2018.

31 December 2019	Outstanding amount	Interest	Type of loans
Loans less than 12 months	-	-	-
Loans over 12 months	-	-	-
Total	**0**		

31 December 2018	Outstanding amount	Interest	Type of loans
Loans less than 12 months	-	-	-
Loans over 12 months	1	discounted	mortgage loan
Total	**1**		

	31 December 2019		31 December 2018	
	Head-count	The amount of emoluments	Head-count	The amount of emoluments
Members of Board of Directors	11	26	4	28
Members of Supervisory Board	5	15	6	18
Total payments	**16**	**41**	**10**	**46**

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	Subsidiaries	Associates and joint ventures	Key management
Due from banks	120,833	-	-
Loans	-	-	-
Other assets	9,473	30	-
Total assets	**130,356**	**30**	**-**
Due to banks	537,368	-	-
Deposits from customers	-	-	-
Other liabilities	1,764	3	-
Total liabilities	**539,132**	**3**	**-**
Interest income	657	-	-
Interest expense	(291)	-	-
Net interest income	**366**	**-**	**-**
Fee and commission income	1,833	-	-
Fee and commission expense	(1,479)	(16)	-
Net fee and commission income	**354**	**(16)**	**-**
Other operating income	17,761	8	-
Other operating expense	(6,238)	(1)	-
Operating income	**11,523**	**7**	**-**
Operating expense	(3,270)	26	(41)
Profit/loss on transactions with related parties	**8,973**	**17**	**(41)**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Subsidiaries	Associates and joint ventures	Key management
Due from banks	205,205	-	-
Loans	526	-	1
Other assets	16,327	-	-
Total assets	**222,058**	**-**	**1**
Due to banks	730,000	1	-
Deposits from customers	-	-	-
Other liabilities	3,453	-	-
Total liabilities	**733,453**	**1**	**-**
Interest income	1 806	-	-
Interest expense	(3,855)	-	-
Net interest income	**(2,049)**	**-**	**-**
Fee and commission income	2,974		-
Fee and commission expense	(3,216)	(32)	-
Net fee and commission income	**(242)**	**(32)**	**-**
Other operating income	3,094	4	-
Other operating expense	(914)	-	-
Operating income	**2,180**	**4**	**-**
Operating expense	(2,132)	-	(46)
Profit/loss on transactions with related parties	**(2,243)**	**(28)**	**(46)**

All figures in tables are in HUF million except otherwise noted

Related parties financial data preliminary, unaudited data

Related party	31 December 2019				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Bóly és Vidéke Takarékszövetkezet	0%	272	0	272	(393)
Centrál European Credit d.d.	0%	331	784	454	99
DHB Investment Ltd.	100%	301	60	241	130
Díjbeszedő Faktorház Ltd.	51%	7,718	1,489	6,229	982
Díjbeszedő Informatikai Ltd.	50%	1,528	1,139	389	(190)
Díjnet Ltd.	51%	882	244	638	154
Diófa Alapkezelő Ltd.	92%	1,912	349	1,563	1,098
Diófa Ingatlankezelő Ltd.	0%	171	96	75	7
Diófa TM1 Ingatlan Befektetési Alap	0%	1,893	67	1,826	(84)
Magyar Posta Befektetési Szolgáltató Ltd.	50%	202	130	72	(281)
MA-TAK-EL Ltd.	59%	4,410	4,280	130	93
MPT Security Ltd.	50%	4,851	1	3	0
Takarék Faktorház Ltd.	100%	9,157	8,391	766	77
Takarék Ingatlan Ltd.	100%	528	145	383	220
Takarék Invest Befektetési és Ingatlankezelő Ltd.	100%	4,208	159	4,049	354
Takarék Mortgage Bank Plc.	88%	342,696	277,854	68,841	1,944
Takarék Kockázati Tőkealap	77%	4,437	705	4,436	(177)

Related parties financial data preliminary, unaudited data- continued

All figures in tables are in HUF million except otherwise noted

Related party	31 December 2019				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Takarék Központi Követeléskezelőzelő Ltd.	100%	8,807	7,446	1,361	511
Takarék Lízing Ltd.	0%	33,379	33,892	487	182
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	100%	2,899	842	2,898	84
Takarék Zártkörű Befektetési Alap	92%	12,841	1,799	11,042	2,951
Takarékbank Ltd.	73%	2,167,306	2,044,274	123,032	(7,616)
Takarékinfo Központi Adatfeldolgozó Ltd.	14%	18,934	17,216	1,718	(2,159)
Takarékszövetkezeti Informatikai Ltd.	52%	1,856	107	1,748	157
TAK-INVEST Informatikai és Szolgáltató Ltd.	100%	397	2	395	17
TIFOR Takarék Ingatlanforgalmazó Ltd.	0%	5	0	5	(22)
TIHASZ Takarék Ingatlanhasznosító Ltd.	0%	5	0	5	23
TKK Csoport Ingatlankezelő Ltd.	0%	4	3	0	2
TKK Ingatlan Ltd.	0%	7	6	0	(5)
TKK Takarék Követelésbehajtó Ltd.	0%	1,355	1,327	28	23

All figures in tables are in HUF million except otherwise noted

Related parties financial data

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 Zrt.	100%	463	355	108	0
Díjbeszedő Faktorház Ltd.	51%	7,515	1,586	5,929	789
Díjbeszedő Informatikai Ltd.	50%	1,658	1,080	578	(131)
Díjnet Ltd.	51%	872	387	484	176
Diófa Alapkezelő Ltd.	92%	1,543	194	1,348	914
Diófa Ingatlankezelő Ltd.	0%	129	60	68	15
Magyar Posta Befektetési Szolgáltató Ltd.	50%	7,265	6,972	293	(104)
MA-TAK-EL Ltd.	59%	1,815	1,775	41	(6)
MPT Security Ltd.	50%	4,861	1,399	3,462	220
Takarék Faktorház Ltd.	100%	9,652	8,963	689	45
Takarék Ingatlan Ltd.	100%	421	258	163	5
Takarék Invest Befektetési és Ingatlankezelő Ltd.	100%	3,900	156	3,744	99
Takarék Mortgage Bank Plc.	37%	329,892	268,011	61,881	4,574
Takarék Központi Követeléskezelőzelő Ltd.	100%	3,234	2,395	840	290

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Related parties financial data- continued

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	92%	7,603	3	7,600	76
Takarékbank Ltd.	100%	63,820	60,160	3,660	252
Takarékinfo Központi Adatfeldolgozó Ltd.	14%	22,108	20,390	1,718	(2,365)
Takarékszövetkezeti Informatikai Ltd.	52%	3,287	1,696	1,591	124
TAK-INVEST Informatikai és Szolgáltató Ltd.	100%	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

32. 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	3,345	-	7,040	2,855	199	112	-	13,551
Interest expenses	(1,619)	-	-	(2,805)	(930)	(975)	-	(6,329)
NET INTEREST INCOME	**1,726**	**-**	**7,040**	**50**	**(731)**	**(863)**	**-**	**7,222**
Fee and commission income	-	-	-	-	-	14,852	-	14,852
Fee and commission expenses	-	-	-	-	-	(8,249)	-	(8,249)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**6,603**	**-**	**6,603**
DIVIDEND INCOME	**154**	**-**	**19**	**-**	**-**	**-**	**499**	**672**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	2,200	8,617	-	-	-	10,817
Gains on financial assets and liabilities held for trading, net	3,155	-	-	-	-	-	-	3,155
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	654	-	-	-	-	-	654
(Losses) from hedge accounting, net	-	0	-	-	(213)	-	-	(213)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	5,297	5,297
Other operating income	-	-	-	-	-	-	1,009	1,009
Other operating expense	-	-	-	-	-	-	(573)	(573)
OPERATING INCOME	**5,035**	**654**	**9,259**	**8,667**	**(944)**	**5,740**	**6,232**	**34,643**

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	10,892	28	3,367	4,922	664	-	-	19,873
Interest expenses	(3,198)	-	-	(1,045)	-	(1,548)	-	(5,791)
NET INTEREST INCOME	**7,694**	**28**	**3,367**	**3,877**	**664**	**(1,548)**	**-**	**14,082**
Fee and commission income	-	-	-	-	-	13,537	-	13,537
Fee and commission expenses	-	-	-	-	-	(7,916)	-	(7,916)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**5,621**	**-**	**5,621**
DIVIDEND INCOME	**8**	**-**	**18**	**-**	**-**	**-**	**431**	**457**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	227	(177)	-	-	-	50
Gains on financial assets and liabilities held for trading, net	2,041	-	-	-	-	-	-	2,041
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	(115)	-	-	-	-	-	(115)
Gains from hedge accounting, net	-	-	-	-	21	-	-	21
Gains on derecognition of non-financial assets	-	-	-	-	-	-	1,002	1,002
Other operating income	-	-	-	-	-	-	834	834
Other operating expense	-	-	-	-	-	-	(733)	(733)
OPERATING INCOME	**9,743**	**(87)**	**3,612**	**3,700**	**685**	**4,073**	**1,534**	**23,260**

All figures in tables are in HUF million except otherwise noted

33. 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 accordane with the Hungarian Accounting Standards.

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

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

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

1 January 2018	Notes	HAS	Effect of imple-mentation of IFRS	IFRS
Assets				
Cash, cash balances at central banks and other demand deposits		34,185	-	34,185
Financial assets held for trading	l)	70,983	1,827	72,810
Non-trading financial assets manda-torily at fair value through profit or loss	a)	-	1,555	1,555
Financial assets at fair value through other comprehensive income	b)	198,901	1,890	200,791
Financial assets at amortised cost	a), c)	485,904	(4,701)	481,203
Investments in subsidiaries, joint ven-tures and associates		38,995	-	38,995
Tangible assets	e)	1,944	360	2,304
Intangible assets	d)	717	(44)	673
Tax assets		48	483	531
Other assets	i)	5,548	309	5,857
Total Assets		**837,225**	**1,679**	**838,904**

All figures in tables are in HUF million except otherwise noted

1 January 2018	Notes	HAS	Effect of imple-mentation of IFRS	IFRS
Liabilities				
Financial liabilities held for trading	l)	1,654	350	2,004
Financial liabilities at amortised cost	e)	805,424	89	805,513
Derivatives – Hedge accounting	m)	-	1,575	1,575
Provisons	f) g)	1,206	1,279	2,485
Tax assets		-	-	-
Oher liabilities		5,367	2,236	7,603
Total liabilities		**813, 651**	**5,529**	**819,180**
Equity				
Share Capital		3,390	-	3,390
Share premium		3,479	-	3,479
Accumulated other comprehensive income	b)	-	1,195	1,195
Retained earnings		14,873	(5,001)	9,872
Other reserves		3,363	(44)	3,319
Treasury shares (-)		(1,531)	-	(1,531)
Total equity		**23,574**	**(3,850)**	**19,724**
Total equity and total liabilities		**837,225**	**1,679**	**838,904**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of imple-mentation of IFRS	IFRS
Assets				
Cash, cash balances at central banks and other demand deposits		35,857	-	35,857
Financial assets held for trading	a)	53,073	4,054	57,127
Non-trading financial assets manda-torily at fair value through profit or loss	a)	6,084	932	7,016
Securities, financial assets at fair value through other comprehensive income	b)	446,425	3,471	449,896
Financial assets at amortised cost	a) c)	554,085	(17,144)	536,941
Derivatives – Hedge accounting		-	411	411
Investments in subsidiaries, joint ventu-res and associates		55,891	(69)	55,822
Tangible assets	e)	1,984	640	2,624
Intangible assets		587	-	587
Tax assets	h)	53	443	496
Other assets	i)	7,072	7,088	14,160
Total Assets		**1,161,111**	**(174)**	**1,160,937**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of imple-mentation of IFRS	IFRS
Liabilities				
Financial liabilities held for trading	l)	2,141	2,985	5,126
Financial liabilities at amortised cost	e)	1,120,743	(7,359)	1,113,384
Derivatives – Hedge accounting	m)	-	101	101
Provisons	f) g)	537	1,135	1,672
Tax liabilities	h)	-	-	-
Oher liabilities		7,084	8,052	15,136
Total liabilities		**1,130,505**	**4,914**	**1,135,419**
Equity				
Share Capital		3,390	-	3,390
Share premium		3,479	-	3,479
Accumulated other comprehensive income	b)	4,511	(398)	4,113
Retained earnings		9,966	(5,045)	4,921
Other reserves		4,090	-	4,090
Treasury shares (-)		(2,539)	-	(2,539)
Profit for the year		7,709	355	8,064
Total equity		**30,606**	**(5,088)**	**25,518**
Total equity and total liabilities		**1,161,111**	**(174)**	**1,160,937**

All figures in tables are in HUF million except otherwise noted

31 December 2018	Notes	HAS	Effect of implementation of IFRS	IFRS
Interest income	c)	19,544	319	19,873
Interest expenses	e)	(5,787)	(4)	(5,791)
Net interest income		**13,767**	**315**	**14,082**
Fee and commission income		13,537	-	13,537
Fee and commission expenses		(7,916)	-	(7,916)
Net fee and commission income		**5,621**	**-**	**5,621**
Dividend income		457	-	457
Profit from foreign exchange transactions		1,282	-	1,282
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		50	-	50
Gains on financial assets and liabilities held for trading, net	l)	1,601	440	2,041
(Losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	a)	-	(115)	(115)
Gains from hedge accounting, net	m)	21	-	21
Net trading result		**3,411**	**326**	**3,737**
Other operating income		1,836	-	1,836
Other operating expense		(733)	-	(733)
OPERATING INCOME, NET		**23,902**	**641**	**24,543**
Provisions	f) g)	379	291	670
Impairment or (reversal of impairment) on financial assets not measured at fair value through profit or loss	c)	490	(311)	179
Share of the profit of investments in subsidiaries, joint ventures and associates accounted for using the equity method		35	-	35
(Reversal of impairment) on non-financial assets		(8)	-	(8)
General and administrative expenses	d),e)	(17,681)	89	(17,592)
Profit from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		785	-	785
Profit before tax		**7,902**	**710**	**8,612**
Income tax expense	h)	(193)	(355)	(548)
Profit for the year		**7,709**	**355**	**8,064**
Other comprehensive income		-	-	2,853
Comprehensive income for the year		**7,709**	**355**	**10,917**

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

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

a) notes:

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

b) notes:

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) notes:

The amount of the initial fees and commisson 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 9,369 million, whereas the impairment recognised previously according to hungarian accounting standards (hereinafter „HAS") was HUF 3,784 million, and as at 31 December 2018 was the impairment under IFRS 9 HUF 9,251 million, whereas the impairment according to hungarian accounting standards („HAS") was HUF 3,310 million.

d) notes:

The cost of reorganization, and research and development were derecognized – in the amount of HUF 44 million as at 1 January 2018 – according to IAS 38 from intangible assets.

e) notes:

In the line „Tangible assets" were recognised the right-of-use assets and the related lease liabilities according to IFRS 16. This effect on the total balance sheet was HUF 360 million as at 1 January 2018, and was HUF 640 million as at 31 December 2018.

f) notes:

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 1,315 million, whereas according to HAS was recognised HUF 0, and as at 31 December 2018 was the provision under IFRS 9 HUF 932 million, whereas according to HAS was recognised HUF 0.

g) notes:

Recognition of provision for amounts relating to accrued vacation pay was HUF159 million as at 1 January 2018, and was HUF 204 million as at 31 December 2018.

h) notes:

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

i) notes:

Through the transition of IFRS the accrued part of the fair value at initial recognition of the disbursed loans under Funding for Growth Scheme – as at 1 January 2018 HUF 876 million and as at 31 December 2018 HUF 7,206 million - was reported in other assets.

j) notes:

Through the transition of IFRS the accrued part of the fair value at initial recognition of the borrowed loans under Funding for Growth Scheme – as at 1 January 2018 HUF 1,948 million and as at 31 December 2018 HUF 8,036 million - was reported in other liabilities.

k) notes:

Treasury shares - as at 1 January 2018 HUF 1,531 million and as at 31 December 2018 HUF 2,539 million - were reclassified from the assets as a deduction from shareholders' equity.

l) notes:

Equity instruments and debt securities held for trading and kept in trading book, just like assets and liabilities from derivatives were recognised at fair value through profit or loss.

m) notes:

The Bank is reported its derivative transactions on interest, exchange rate and credit risk management in Derivatives - hedging instruments category according to the type of the transactions among assets or liabilities.

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 profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

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

1 January 2018	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**3,390**	**-**	**3,479**	**-**	**14,386**	**-**	**-**	**(1,531)**	**-**	**19,724**
Unused portion of reserve for developments	-	-	-	-	-	-	-	-	-	-
Other capital reserve	-	-	8	-	(8)	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	(1,195)	1,195	-	-	-	-
Repurchased treasury shares	-	-	-	-	(1,531)	-	1,531	-	-	-
General reserve	-	-	-	3,311	(3,311)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**3,390**	**-**	**3,487**	**3,311**	**8,341**	**1,195**	**1,531**	**(1,531)**	**-**	**19,724**

All figures in tables are in HUF million except otherwise noted

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

31 December 2018	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**3,390**	**-**	**3,479**	**-**	**13,124**	**-**	**-**	**(2,539)**	**8,064**	**25,518**
Unused portion of reserve for developments	-	-	-	-	-	-	-	-	-	-
Other capital reserve	-	-	-	-	(8)	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	(4,113)	4,113	-	-	-	-
Repurchased treasury shares	-	-	-	-	(2,539)	-	2,539	-	-	-
General reserve	-	-	-	4,082	(4,082)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**3,390**	**-**	**3,479**	**4,082**	**2,382**	**4,113**	**2,539**	**(2,539)**	**8,064**	**25,518**

All figures in tables are in HUF million except otherwise noted

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

31 December 2019	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**3,390**	**-**	**3,479**	**-**	**20,863**	**-**	**-**	**(2,539)**	**8,324**	**33,517**
Unused portion of reserve for developments	-	-	-	-	-	-	-	-	-	-
Other capital reserve	-	-	8	-	(8)	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	(10,378)	10,378	-	-	-	-
Repurchased treasury shares	-	-	-	-	(2,539)	-	2,539	-	-	-
General reserve	-	-	-	4,914	(4,914)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**3,390**	**-**	**3,479**	**4,914**	**3,024**	**10,378**	**2,539**	**(2,539)**	**8,324**	**33,517**

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:

	1 January 2018	31 December 2018	31 December 2019
Share capital in accordance with IFRS adopted by EU	3,390	3,390	3,390
Share capital registered on the Registry Court	3,390	3,390	3,390
Difference	**-**	**-**	**-**

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

	1 January 2018	31 December 2018	31 December 2019
Retained earnings and other reserves	14,386	13,123	20,863
Unused portion of reserve for developments	-	-	-
Other capital reserve	(8)	(8)	(8)
Accumulated other comprehensive income	(1,195)	(4,113)	(10,378)
Repurchased treasury shares	(1,531)	(2,539)	(2,539)
General reserve	(3,311)	(4,082)	(4,914)
Net profit for the year	-	8,064	8,324
Untied retained earnings available for the payment of di-vidends	**8,341**	**10,445**	**11,347**

All figures in tables are in HUF million except otherwise noted

34. POST BALANCE SHEET EVENTS

On 30 December 2019, MTB Bank of Hungarian Saving Cooperatives Co. Ltd., as the majority owner, entered into an agreement on the sale of Diófa Alapkezelő Ltd.(hereinafter also as: Diófa Management Company, Management Company). The full transaction is expected to close in May 2020. The sale of Diófa Alapkezelő Ltd. is part of the renewal of the Takarék Group. At the same time, the Group continues to distribute and manage the investment units of Diófa Management Company, and provides the entire banking service to the Management Company and its clients. Accordingly, the change of ownership will not be directly perceptible to the clients of Diófa Alapkezelő Ltd., the Management Company will continue its activities and offer its services to its institutional and retail clients.

On March 11, 2020, the Management Board of the Takarek Group approved the Pandemic Plan and the Amendment of the Business Continuity Policy, and the Pandemic Operational Staff (POT) was established. From this time the POT coordinates in close cooperation with the Management Board and other relevant departments the tasks of the Takarék Group in relation to the corona-virus crisis. The POT continually formulates instructions and recommendations to all employees and about this send information to the meetings at appropriate intervals.

The management regularly monitors the impact of the crisis on equity and profit or loss and decides on appropriate actions which it also informs the National Bank of Hungary.

This situation is expected to have an impact on macroeconomic circumstances in the future (e.g. GDP growth, unemployment, inflation), which indicators were taken into account for the purpose of the IFRS9 models; the impairment and provisioning levels are expected to increase in 2021. See credit risk at the balance sheet date in note 29.4.

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

The measures of National Bank of Hungary will ensure liquidity in the banking sector in the foreseeable future.

According to the government fact sheet at 4 April 2020, the banking tax revenue plan will increase significantly in 2020.