TAKARÉK MORTGAGE CO PLC

GENERAL SHAREHOLDERS' MEETING

BUDAPEST

25 APRIL 2019

ANNOUNCEMENT
ON INVITATION TO ANNUAL GENERAL MEETING

Takarék Mortgage Bank Co Plc. (registered seat: H-1082 Budapest, Üllői út 82.; registration No.: 01-10-043638; registered by the Metropolitan Court as Court of Registration; hereinafter referred to as Company) hereby, in accordance with its legal obligation, informs the shareholders and the investors of the Company, that the Board of Directors of the Company passed the respective resolution on its meeting of 25 March 2019 on calling the Annual Regular General Shareholder's Meeting (hereinafter referred to as General Meeting) of the Company.

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

Date and time of the General Meeting:
25 April 2019 (Thursday), 10.00 a.m. CET.
Registration for the General Meeting starts at 8.00 a.m. CET. 25 April 2019 (Thursday)

Venue of the General Meeting:
Danubius Hotel Gellért
(H-1111 Budapest, Szent Gellért tér 1.)

Agenda of the General Meeting:

1. Report of the Board of Directors on the business activities, financial position, business policy and management of the Company in the year 2018; Acceptance of the business report,ii.financial statements (balance sheet report, profit and loss account, additional notes) of the Company as a bank as prescribed by the Hungarian accounting standards, decision on the utilization of the after tax profit, furthermore, the consolidated, business report, financial statement according to the International Financial Reporting Standards for the year 2018; Report of the Supervisory Board on the financial reports of the Company on the year 2018 in accordance with Hungarian accounting standards and International Financial Reporting Standards („IFRS") (consolidated); Report of the Auditor Committee on the financial reports of the Company on the year 2018 in accordance with Hungarian accounting standards and International Financial Reporting Standards („IFRS") (consolidated); the auditor's report on the (consolidated) financial statements of the Company for the year 2018, in accordance with Hungarian accounting rules and International Financial Reporting Standards ("IFRS").
2. Decision on the granting of discharge of liability for the executive officers considering the suitability of their activity performed in the business year of 2018
3. Election and decision on the remuneration of the auditor
4. Acceptance of the Report on Corporate Governance
5. Recall of the member (s) of the Board of Directors and the election of a new Board member (s)
6. Recall of the member (s) of the Supervisory Board and the election of a new Supervisory Board member (s)
7. Recall of the member (s) of the Audit Committee and the election of a new member (s) of the Audit Committee
8. Amendment of the Statutes of the Company
9. Authorization of the Board of Directors to acquire own shares (in Hungarian: „saját részvény")
10. Miscellaneous

Budapest, 25 March 2019

Method of holding the General Meeting

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

Requirements for participation in the General Meeting and exercising voting rights

A Pursuant to Article 12.1 of the Statues of the Company, each Series "A" ordinary share of a face value of HUF 100 (say One hundred Hungarian forints) shall give right to one vote, Series "B" dividend preference shares of a face value of HUF 100 (say One hundred Hugnarian forints) shall not give right to vote, and each Series "C" ordinary share of a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes at the General Meeting.

B Each shareholder can exercise his/her shareholder's rights attached to the respective shares on the General Meeting only in case he/she is the owner of the shares on the effective date of the identification procedure (in Hungarian: „tulajdonosi megfeleltetés"), as specified in Act V of 2013 on Civil Code (hereinafter referred to as Civil Code) and Act CXX of 2001 on Capital Markets (hereinafter referred to as Capital Markets Act) and in the Rules of the KELER Ltd., and whose name is registered – as at 18.00 p.m. CET on the second working day preceding the commencement date of the General Meeting (the closure of the register of shareholders) – in the register of shareholders.

C The Company requests KELER Ltd. to conduct an identification procedure on the date of the General Meeting as a corporate event. The effective date of the identification procedure will be **16 April 2019**, while the closing time of the register of shareholders is **18.00 p.m. on 23 April 2019** CET. Rules of the identification procedure are set out in the up-to-date version of the internal general regulations of KELER Ltd.

D The Company deletes all effective data being registered in the register of shareholders on the date of the identification procedure, and simultaneously it registers the data into the register of the shareholders according to the result of the identification procedure, then the Company closes the register of the shareholders on the 2nd day proceeding the General Meeting. After the closure of the register of the shareholders, data affecting the ownership rights of a shareholder can be registered into the register of shareholders only on the successive working day of the closure of the General Meeting, at the earliest.

E The closure of the register of shareholders does not limit the right of any shareholder being entered therein to transfer his/her shares after such closure. Alienation of shares before the day of opening of the General Meeting does not exclude the right of the respective shareholder registered in the register of the shareholders to participate at the General Meeting and to exercise his/her rights attached to his/her shares.

F Each shareholder registered in the Company's register of shareholder on the effective day of the identification procedure may exercise the rights personally or by proxy (through a representative) or through a nominee under the Civil Code and the Capital Markets Act. Any member of the Board of Directors, any member of the Supervisory Board and any senior employee of the Company may be representative only in case he/she is instructed as representative by an unambiguous written instruction on voting on each proposal for resolution given by the respective shareholder. The Auditor and the Coverage Supervisor of the Company may not be authorized representatives. The authorization for representation shall be valid for one general meeting, or for a definite term not exceeding 12 (twelve) months. The authorization for representation will remain valid for the continued General Meeting in case of suspension and for a General Meeting called repeatedly due to a lack of quorum. The authorization shall be submitted to the Company in the form of notarial deed or private deed with full probative effect. In case of shareholders other than natural persons, powers of representation of the person(s) signing the power of attorney or representing the shareholder at the general meeting shall be certified by the presentation of appropriate original documents issued by a public register or authority (e.g. certificate of incorporation) and by an original version or by a copy certified by a public notary of an authentic statement of signature (certified by a notarial act of a public notary) or a signature specimen countersigned by an attorney-at-law. If the certification of the power of representation is prepared in any language other than Hungarian a certified Hungarian translation thereof shall be attached. The shareholder may also appoint a proxy to represent him/her at the General Meeting by returning the form as contained in Annex 1 or Annex 2 of the Statutes of the Company and sent – in case of expressed request of the shareholder - by the Company electronically or by mail. The form shall be returned to the Company as a private deed with full probative effect not later than the end of the working day preceding the day of the General Meeting. In case such authorization is made abroad, the form of the authorization is to be complied with legal regulations on certification or re-certification of documents made abroad.

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

H Provided that the requirements of attending the General Meeting and excercising of voting rights are met, the shareholder or his/her authorized representative may request the electronic or other device for casting votes on the venue of the General Meeting, after proving his/her identity and signing the attendance sheet.

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

Pursuant to article 11.8 of the Statutes, the General Meeting shall have a quorum if the attended shareholders represent more than half of the votes of the voting shares. If the General Meeting does not have a quorum, the Company will hold the repeated General Meeting convened by the present Announcement on the venue of the original General Meeting on **8 May 2019 (Wednesday) at 10.00 a.m. CET.** The repeated general meeting shall have a quorum in respect of the items of the agenda of the original General Meeting, regardless of the number of attendees. Separate registration is required for the repeated General Meeting, which starts at 8 May 2019 at 8.00 a.m. CET.

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

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

TAKARÉK Mortgage Bank Co Plc.

ANNUAL GENERAL MEETING

Agenda Item No. 1.

For the financial year ended 2018:

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

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

PROPOSAL FOR RESOLUTION

a.i. The Annual General Meeting accepts the Company's Business Report in accordance with Act of Accounting for the year ended 2018.

a.ii The Annual General Meeting accepts the Company's financial statement (Balance sheet, Statement of Profit and Loss, Supplementary Notes) in accordance with Act of Accounting for year ended 2018.

- Total Assets HUF 333.292 million
- Profit After Tax HUF 2.523 million
- Net profit for the year HUF 2.271 million

a.ii The Annual General Meeting accepts the proposal for the allocation for the profit after taxation:
Shares – Series "A" for financial year ended 2018 no dividend is declared
Shares – Series "B" for financial year ended 2018 no dividend is declared
Shares – Series "C" for financial year ended 2018 no dividend is declared
Net profit for year ended 2018 is allocated to retained earnings.

b.i The Annual General Meeting accepts the Company's Business Report in accordance with the International Financial Reporting Standards for the year ended 2018.

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

The Annual General Meeting determines the financial statement with:

- Total Assets HUF 754.516 million
- Net profit for the year HUF 6.586 million

Takarék Mortgage Bank Plc.

Annual report and
Independent Auditor`s Report

December 31, 2018

Takarék Mortgage Bank Co Plc

Annual Report

31 December 2018

Balance Sheet
Profit and Loss Statement
Notes to Accounts

(Translation)

Budapest, 2 April 2019

Deloitte.

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

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

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

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarék Mortgage Bank Plc.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Other Information:

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

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

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

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

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

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

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

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's preparation of the financial statements in accordance with the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Budapest, April 2, 2019

The original Hungarian version has been signed.

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

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

Registration number of statutory registered auditor: 003449

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

Date: Budapest, 2 April 2019

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

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

Balance Sheet (Hungarian Accounting Rules)

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

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

Date: Budapest, 2 April 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy Chief Executive Officer

Takarék Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401 Cg: 01-10-043638

in million HUF

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

TAKARÉK MORTGAGE BANK

Takarék Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

Takarék Mortgage Bank Public Limited Company

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

Statistical code: 12321942649211401

Cg: 01-10-043638

in million HUF

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

Date: Budapest, April 2 2019

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

Takarék Mortgage Bank Co Plc

NOTES TO ACCOUNTS

31 December 2018

(translation)

Budapest, 2 April 2019

TAKARÉK MORTGAGE BANK

TABLE OF CONTENTS TO NOTES TO ACCOUNTS
31 December 2018

I. GENERAL NOTES

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

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

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

The share capital includes the following types of shares:

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

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

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

Takarék Mortgage Bank Plc.'s ownership structure

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

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

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

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

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

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

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

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

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

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

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

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

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

I / 2. Key elements of the accounting policy

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

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

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

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

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

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

The Bank's accounting systems

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

Error distorting true and fair view

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

Threshold of material and minor errors

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

Balance sheet

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

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

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

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

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

Profit and Loss Statement

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

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

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

Notes to the Financial Statements

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

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

- General notes,
- Specific notes,
- Information.

Business Report

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

The Business Report contains information on:

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

I / 3. Information

1. **Information on shareholders with significant or majority interest**

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

2. **Information on the Bank's risks in excess**

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

3. **Compliance with mortgage lending provisions**

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

4. Compliance with the provisions on investment

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

TAKARÉK Commercial Bank Ltd.

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

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

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

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

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

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

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

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

6. Information on mortgage bonds issued

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

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

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

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

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

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

8. Information on general reserve

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

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

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

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

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

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

10. Information on the Bank's shares

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

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

In 2018 dividend payment has not been made.

11. Derivative deals

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

12. Other banking information

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

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

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

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

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

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

- In the course of 2018 the Bank offered 40 pieces of properties (2017: 89 pieces) to the NET (National Asset Management Ltd). to which 68 pieces of transactions were related (2017: 163). From the offered properties in 2018 39 pieces of properties (2017: 288 pieces) were purchased in the amount of HUF 98 million and together with that 73 pieces (2017: 528 pieces) of transactions (receivables from customers) in the amount of HUF 24 1 million (2017: HUF 2 030 million) were closed till 31 December 2018.

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

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

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

13. Additional information

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

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

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

15. Significant events after balance sheet date

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

16. Other information

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

  Györgyi Aho

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

  Dr. László Gyula Nagy Chief Executive Officer

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

I /4. Changes in own equity
31 December 2018

Data in million HUF

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

* Include the repurchased own shares.

TAKARÉK MORTGAGE BANK

II. SPECIFIC PART

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

31 December 2018

Data in million HUF

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

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

31 December 2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

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

31 December 2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

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

31 December 2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

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

Data in million HUF

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

TAKARÉK MORTGAGE BANK

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

Data in million HUF

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

TAKARÉK MORTGAGE BANK

II / 7 . Items to modify corporate tax base

31 December 2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

II / 8. Classification of receivables

31 December 2018

in million HUF

Classification	31 December 2017				31 December 2018			
	Gross amount	Rate	Impairment	Net carrying amount	Gross amount	Rate	Impairment	Net carrying amount
Receivables from customers:								
Performing	66 698	82,88%	-	66 698	61 113	87,56%	-	61 113
Non performing	13 781	17,12%	4 975	8 806	8 680	12,44%	2 196	6 484
Total:	**80 479**	**100,00%**	**4 975**	**75 504**	**69 793**	**100,00%**	**2 196**	**67 597**

Classification	31 December 2017				31 December 2018			
	Gross amount	Rate	Impairment	Net carrying amount	Gross amount	Rate	Impairment	Net carrying amount
Receivables from credit institutes:								
Performing	147 255	100,00%	-	147 255	182 765	100,00%	-	182 765
Non performing	-	0,00%	-	-	-	0,00%	-	-
Total:	**147 255**	**100,00%**	**-**	**147 255**	**182 765**	**100,00%**	**-**	**182 765**

TAKARÉK MORTGAGE BANK

II / 9. Contingent liabilities

31 December 2018

in million HUF

Classification	31 December 2017			31 December 2018		
	Gross off-balance sheet liabilties	Rate	Provision in balance sheet	Gross off-balance sheet liabilties	Rate	Provision
Liabilities to customers:						
Performing	3 031	98,38%	-	1 542	98,07%	-
Non performing	50	1,62%	14	30	1,93%	1
Total:	**3 081**	**100,00%**	**14**	**1 572**	**100,00%**	**1**

Contingent liabilities related to litigation cases:						
Performing	17	100,00%	12	7	100,00%	2
Non performing	-	0,00%	-	-	0,00%	-
Total:	**17**	**100,00%**	**12**	**7**	**100,00%**	**2**

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

II / 10 Changes in provisions

31 December 2018

Data in million HUF

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

* Provisions are related to the contingent liabilities (for example unused credit lines) or future payment obligations. The reduction of the provision should be accounted as a "use" from the books due to the derecogniton of contingent liabilities related to a special event (sale, write-off, remission), max. in the same amount as the contingent liability.
**If the amount of the provision is higher than the derecognised contingent liability, the provision should be reduced as "reversal". A reversal is also recognized if the qualifying of the contingent liability is positive in the quarterly rating and the amount of the provision can be reduced. According to the Government Decree No. 250/2000 (X.12) the reversal of provisions should be classified if the reversal of the current year provision or the reducing of the previous year provision.

TAKARÉK MORTGAGE BANK

II / 11 Changes in impairment losses

31 December 2018

Data in million HUF

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

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

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

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

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

TAKARÉK MORTGAGE BANK

II / 12 CASH-FLOW

Data in million HUF

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

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

31 December 2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

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

Data in million HUF

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

TAKARÉK MORTGAGE BANK

II / 15 Services consumed and accounted costs by types

2018

Data in million HUF

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

TAKARÉK MORTGAGE BANK

III. INFORMATIVE PART

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

31 December 2018

Data in million HUF

Name of the enterprise\ Registered office	Share in investment	Registered value of the investment	Enterprise's Total equity	Registred capital	Unpaid capital	Retained Earnings	Tied up reserve	Capital reserve	Revaluation reserve	2018 profit / loss
Takarék Commercial Bank Ltd.	51,0%	31 978	22 446	8 681	-	-9 712	-	21 647	-	1 647
1082 Budapest Üllői út 48.										
Total		**31 978**	**22 446**	**8 681**	-	**-9 712**		**21 647**	-	**1 647**

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

31 December 2018

Data in million HUF

Name of enterprise	Headquaters	Share in investment	Subscribed capital
Magyar Takarékszövetkezeti Bank Ltd.	1122 Budapest, Pethényi köz 10.	0,00006%	3 390
Integration Organization of Cooperative	1051 Budapest, Nádor utca 31.	0,00714%	-

III /2 Investments
31 December 2018

Data in million HUF

	Takarék Commercial Bank Ltd. *	Magyar Takarékszövetekezeti Bank Ltd.	Integration Organization of Cooperative	Total
Gross value 31 December 2017	35 282	0,002	10	35 292
Purchase of shares	-	-	-	0
Sale of shares	-	-	-	0
Capital increase	-	-	-	0
Gross value 31 December 2018	35 282	0,002	10	35 292
Impairment losses 31 December 2017	3 304	0	0	3 304
Investment impairment	-	-	-	0
Investment impairment reversal	-	-	-	0
Impairment losses 31 December 2018	3 304	0	0	3 304
Goodwill	-	-	-	0
Net value 31 December 2018	31 978	0,002	10	31 988

* Company name is changed: FHB Bank Ltd.

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

31 December 2018

Data in million HUF

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

Total emoluments payable to Management

Data in million HUF

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

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

31 December 2018

Data in million HUF

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

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

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

31 December 2018

Data in million HUF

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

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

Data in million HUF

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

TAKARÉK MORTGAGE BANK

III / 7 Off-balance sheet items

31 December 2018

Data in million HUF

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

Budapest, 2 April 2019

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy Chief Executive Officer

TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2018
ACCORDING TO HAS

Budapest, April 2, 2019

TABLE OF CONTENTS

1 OVERVIEW OF TAKARÉK MORTGAGE BANK

1.1 TAKARÉK MORTGAGE BANK PLC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2 TAKARÉK COMMERCIAL BANK LTD.

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

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

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

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

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

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

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

2 THE MACROECONOMIC ENVIRONMENT IN 2018

2.1 THE HUNGARIAN ECONOMY IN 2018[1]

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

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

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

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

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

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

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

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

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

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

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

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

2.1.1 Households' mortgage loans

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

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

2.1.2 The market of mortgage bonds

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

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

3 REPORT ON BUSINESS ACTIVITIES AND FINANCIAL ANALYSIS

3.1 MAJOR FINANCIAL INDICATORS

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

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

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

3.2 LENDING

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

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

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

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

3.3 REFINANCING

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

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

3.4 Portfolio quality, provisioning

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

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

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

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

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

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

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

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

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

3.5 Securities issues

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

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

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

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

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

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

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

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

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

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

3.6 BALANCE SHEET STRUCTURE

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

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

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

3.6.1 Interest earning assets

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

3.6.2 Investments and intangible assets

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

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

3.6.3 Other assets

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

3.6.4 Interest bearing liabilities

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

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

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

3.6.5 Shareholders' equity

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

3.6.6 Off balance sheet items

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

3.7 PROFIT & LOSS STRUCTURE

HUF million*	2017 FY	2018 FY	Change (%)	Change
Net interest earnings	4 591	3 919	-14.6%	-672
Interest income	12 586	10 546	-16.2%	-2 040
Interest expenditure	-7 995	-6 627	-17.1%	1 368
Net fees and commissions	-703	-882	25.5%	-179
Income from fees and commissions	650	610	-6.2%	-40
Expenses on fees and commissions	-1 353	-1 492	10.3%	-139
Net financial transactions	14	-95	-	-109
Dividend income	393	234	-40.5%	-159
Total net income	**4 295**	**3 176**	**-26.1%**	**-1 119**
Operational costs	-4 646	-1 737	-62.6%	2 909
Net financial income	**-351**	**1 439**	**-**	**1 790**
Net effect of assignments and write-offs	1 295	1 505	16.2%	210
Net effects of impairments and provisioning	-921	-498	-45.9%	423
Net operating income	**23**	**2 446**	**-**	**2 423**
Net other income	5 536	702	-87.3%	-4 834
Other revenues	1 522	809	-46.8%	-713
Other expenditures	-195	-107	-45.1%	88
Income on investments	4 209	0	-100.0%	-4 209
Taxes, fees to authorities	-958	-625	-34.8%	333
Pre-tax profit	**4 601**	**2 523**	**-45.2%**	**-2 078**
Tax obligation	0	0	-	0
After-tax profit	**4 601**	**2 523**	**-45.2%**	**-2 078**
Accumulation of general reserves	-460	-252	-45.2%	208
Balance sheet profit	**4 141**	**2 271**	**-45.2%**	**-1 870**

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

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

3.7.1 Net interest income

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

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

3.7.2 Net fees and commissions

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

3.7.3 Net financial transactions

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

3.7.4 Other income

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

3.7.5 Operating expenses

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

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

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

3.7.6 Impairment and loan losses

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

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

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

3.7.7 Addition to/use of general reserves

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

4 LIQUIDITY MANAGEMENT

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

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

<u>Developments in the structure of the Bank's liabilities</u>

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

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

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

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

The MNB terminated the obligation of the Bank to comply with the prudential requirements in the second to fourth and sixth to eighth parts of the CRR on a subconsolidated basis from January 1, 2017. At the same time it exempted the

Bank from the individual fulfillment of the second to eighth part of the CRR. The Bank must comply with the requirements of the Integration Organisation of Cooperative Credit Institution and its central bank.

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

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

The Bank considers prudent risk management as a vital value.

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

5.2 Credit Risk

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

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

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

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

5.3 Liquidity and Maturity Risk

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

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

5.4 Exchange Rate Risk

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

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

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

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

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

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

5.7 OTHER

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

6 ORGANIZATION CHANGES AND HEADCOUNT

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

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

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

7 PROTECTION OF ENVIROMENT

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

8 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

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

9 POST BALANCE SHEET DATE EVENTS

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

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

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

Budapest, April 2, 2019

dr. Gyula László Nagy Chief Executive Officer	**Attila Mészáros** Board Member

Appendix

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

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

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

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

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

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

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

Takarék Mortgage Bank Plc.

Consolidated Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

December 31, 2018

Takarék Mortgage Bank Public Limited Company

Consolidated Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2018

Consolidated Financial Statements in Accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2018

Table of Contents **Page(s)**

GENERAL INFORMATION

Chairman of the Board of Directors

József Vida

External Members of the Board of Directors

Gábor Gergő Soltész
Éva Hegedűs

Internal Members of the Board of Directors

Dr. Gyula László Nagy
Attila Mészáros

Chief Executive Officers

Dr. Gyula László Nagy (Chief Executive Officer from 26/04/2017)
Attila Mészáros (Deputy Chief Executive Officer from 11/10/2018)

Large Shareholders Liaison Officer and Secretary

Rita Bozzai

Small Shareholders Liaison Officer

info@takarek.hu

Auditor

Deloitte Ltd.

Seat of the Bank, central office

Budapest.
Üllői út 48.
1082

Deloitte.

Deloitte Könyvvizsgáló
és Tanácsadó Kft.
1068 Budapest,
Dózsa György út 84/C
Levélcím: 1438 Budapest, Pf. 471

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

Bejegyezve:
Fővárosi Törvényszék Cégbírósága
Cg.: 01-09-071057

Adószám: 10443785-2-42
Közösségi adószám: HU10443785

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarék Mortgage Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Takarék Mortgage Bank Plc. and its subsidiaries (the „Group") for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows a total assets of HUF 754,516 million –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 6,586 million –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key audit matter	**Related audit procedures**
Individual assessed impairment of non-performing loans	
The net value of loans and advances to customers comprise 49% of the total assets. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of determination of individual assessed impairment of loans. The most significant assumptions applied in provisioning calculation are the followings: - valuation of collaterals, - estimated time to realize collaterals, - probability of default - estimate that future cash-flows expected to be realized. - IFRS9 credit risk staging methodology and application. Based on the significance of the above described circumstances the calculation of impairment of individual assessed impairment of non-performing loans loans was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - evaluate internal controls relating to origination and monitoring of loans, - evaluate of specific loan impairments with random sample, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, -evaluate the subsequent events (sales of loan portfolio), their effects on financial statements.

Other Information

Other information comprises the information included in the “Corporate Governance Report at Takarék Mortgage Bank Plc.” and the business report of the Bank for 2018, but does not include the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled *"Opinion"* does not apply to the other information.

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

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

In our opinion, the consolidated business report of the Group for 2018 corresponds to the consolidated financial statements of the Group for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Takarék Mortgage Bank Plc. by the General Meeting of Shareholders on April 27, 2018 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 consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Takarék Mortgage Bank Plc., which we issued on April 2, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

Budapest, April 2, 2019

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

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

Registration number of statutory registered auditor: 003449

Consolidated Statement of Profit or Loss for the year ended 31 December 2018

	Notes	2018	2017
Interest income	4	23,730	22,684
Interest expense	4	(9,039)	(9,839)
Net interest income		**14,691**	**12,845**
Fee and commission income	5	8,191	7,811
Fee and commission expense	5	(3,149)	(2,236)
Net fee and commission income		**5,042**	**5,575**
Profit from foreign exchange transactions		381	446
Change in fair value of financial instruments	35	3,003	85
Gains from securities		1,847	1,390
Net result from investment services		-	192
Net trading result		**5,231**	**2,113**
Other operating income	6	5,373	1,090
Other operating expense	7	(5,740)	(11,528)
Operating income, net		**24,597**	**10,095**
Provision for impairment losses	20	757	(1,634)
General and administrative expenses	8	(18,605)	(17,783)
Profit/(loss) before tax		**6,749**	**(9,322)**
Income tax expense	11	(163)	(1,889)
Profit from discontinued operations	18	-	3,023
Profit/(loss) for the year		**6,586**	**(8,188)**
Attributable to: profit/(loss) of shareholders of the Bank		6,897	(3,949)
Attributable to: non-controlling interests		(311)	(4,239)
Earnings per share (HUF 100 face value)	31		
Basic earnings per share (HUF)		**61.39**	**(40.74)**
Diluted earnings per share (HUF)		**61.39**	**(40.74)**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2018

	Notes	2018	2017
Profit/(loss) for the year		6,586	(8,188)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in Cash-flow hedge reserve		25	5
Change in fair value of securities at fair value through other comprehensive income		(368)	721
Foreign currency translation reserve		-	2
Deferred tax effect for other comprehensive income		31	(65)
Other comprehensive (loss)/profit for the period net of taxes	12	(312)	663
Total comprehensive income for the year, net of income taxes		**6,274**	**(7,525)**
Attributable to: profit/ (loss) of shareholders of the Bank		6,585	(3,286)
Attributable to: non-controlling interests		(311)	(4,239)

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2018

	Notes	31 December 2018	31 December 2017
Assets			
Cash on hand		3,157	3,135
Balances with the National Bank of Hungary	14	2,073	33,165
Due from banks	15	61,664	48,797
Securities at fair value through profit or loss	16	-	46,651
Securities at fair value through other comprehensive income	17	192,142	80,198
Derivative financial assets	35	3,962	410
Refinanced mortgage loans	19	105,296	76,597
Loans and advances to customers at amortised cost and at fair value	20	372,594	310,632
Tangible assets	21	2,171	2,847
Goodwill and other intangible assets	22	388	1,128
Deferred tax asset	11	679	811
Other assets	23	10,390	6,206
Total assets		**754,516**	**610,577**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Financial Position as at 31 December 2018

	Notes	31 December 2018	31 December 2017
Liabilities			
Due to banks	24	156,659	33,983
Deposits from customers	27	304,333	329,253
Derivative financial liabilities	35	2,371	1,078
Issued securities	25	214,389	176,947
Financial liabilities at fair value through profit or loss, except for derivatives	26	6,693	7,016
Current tax liability		-	21
Provisions	29	3,988	6,251
Other liabilities	30	10,847	5,696
Total liabilities		**699,280**	**560,245**
Shareholders' equity			
Share capital	31	10,849	10,849
Treasury shares	31	(207)	(207)
Retained earnings		2,479	(2,796)
Other reserve	31	29,598	29,658
Non-controlling interest	31	12,517	12,828
Total shareholders' equity		**55,236**	**50,332**
Total liabilities and shareholders' equity		**754,516**	**610,577**

Budapest, 2 April 2019

Dr. Gyula László Nagy
CEO

Takarék Jelzálogbank Nyrt.
TAKARÉK JELZÁLOGBANK
1082 Budapest, Üllői út 48.

Attila Mészáros
Deputy CEO

All figures in tables are in HUF million except otherwise noted

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

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Notes	2018	2017
Cash flow from operating activities			
Profit/(Loss) for the year		6,586	(8,188)
Non-cash adjustments to net profit/(loss) from:			
Depreciation and amortization	21,22	288	409
Impairment of tangible assets	21,22	656	1,035
Release of provision for losses		(5,923)	(1,125)
Release of other provision		(1,686)	-
Loss on tangible assets derecognized		118	1,609
Gain/ (loss) on intangible assets derecognized		284	(28)
Capitalized interest on loans and advanced to customers at amortised cost and fair value		567	718
Fair value adjustment of derivatives	35	(2,236)	27
Fair value adjustment on financial liabilities at fair value through profit or loss, other than derivatives		186	59
Change in foreign currency translation reserve		-	2
Finance lease liabilities		-	(3)
Operating loss before change in operating assets		**(1,160)**	**(5,485)**
Decrease/(Increase) in operating assets:			
Securities at fair value through profit or loss		46,651	(5,917)
Securities at fair value through other comprehensive income		(112,281)	(14,518)
Refinanced mortgage loans		(28,699)	(45,174)
Loans and advances to customers at amortised cost and at fair value		(58,553)	(23,135)
Other assets		(4,052)	1,009
Increase/(Decrease) in operating liabilities:			
Deposits from customers		(24,920)	32,181
Due to banks		(124,246)	(220,304)
Other liabilities		5,131	1,608
Net cash flow from operating activities		**(302,129)**	**(279,735)**

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Cash Flows for the year ended 31 December 2018 - continued

	Notes	2018	2017
Cash flow from investing activities			
Proceeds from sales of tangible assets		272	119
Purchase of tangible and intangible assets		(202)	(871)
Net cash outflow from investing activities		**70**	**(752)**
Cash flow from financing activities			
Proceed from issued securities		157,570	73,960
Principal repayment on issued securities		(120,636)	(72,330)
Repayment of long term loans		246,922	227,796
Dividend payment to non-controlling interests		-	254
Net cash outflow from financing activity		**283,856**	**229,680**
Decrease in cash and cash equivalents		(18,203)	(50,807)
Net effect of the sale of subsidiaries and joint venture	18	-	653
Opening balance of cash and cash equivalents		85,097	135,251
Closing balance of cash and cash equivalents		**66,894**	**85,097**
Breakdown of cash and cash equivalents:			
Cash on hand		3,157	3,135
Balances with the National Bank of Hungary		2,073	33,165
Due from banks with a maturity of less than 90 days		61,664	48,797
Closing balance of cash and cash equivalents		**66,894**	**85,097**
Supplementary data			
Income tax paid		*(709)*	*(803)*
Interest received		*23,557*	*23,537*
Interest paid		*(8,462)*	*(14,304)*

All figures in tables are in HUF million except otherwise noted

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Notes	Share capital	Treasury shares	Share premium	General reserve	Cash flow hedge reserve	Change in fair value of securities at fair value through other comprehensive income	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Share-holder's equity
1 January 2017		**10,849**	**(207)**	**27,926**	**-**	**-**	**611**	**(2)**	**1,613**	**16,812**	**57,602**
Loss for the year									(3,949)	(4,239)	(8,188)
Other comprehensive income	12					5	656	2			663
Change in non-controlling interests											-
Dividend payment to NCI										255	255
Transfer to general reserve					460				(460)		-
1 January 2018		**10,849**	**(207)**	**27,926**	**460**	**5**	**1,267**	**-**	**(2,796)**	**12,828**	**50,332**
IFRS9 adjustment	52								(1,370)	-	(1,370)
1 January 2018 - Opening		**10,849**	**(207)**	**27,926**	**460**	**5**	**1,267**	**-**	**(4,166)**	**12,828**	**48,962**
Profit for the year									6,897	(311)	6,586
Other comprehensive income	12					23	(335)	-			(312)
Change in non-controlling											-
Transfer to general reserve					252				(252)		-
31 December 2018		**10,849**	**(207)**	**27,926**	**712**	**28**	**932**	**-**	**2,479**	**12,517**	**55,236**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE BANK

Takarék Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Plc., hereinafter "the Bank") was established by the Hungarian State on 21 October 1997 as a limited liability company with a share capital of HUF 3 billion.
The Bank provided mortgage-banking services through its Head Office and regional representative offices located within the Republic of Hungary. The Bank also refinances mortgage loans provided by commercial banks to their customers.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 2 April 2019. The final approval on the consolidated financial statements is provided by the General Meeting.

Notes to the Consolidated Financial Statements

2. ACCOUNTING POLICIES

2. 1. *Basis of preparation*

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

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

2. 2. *Change in accounting policies*

The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2018

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 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards and interpretation has not led to any changes in the Group's accounting policies.

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:

- **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).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.

The effects of IFRS 16 are presented in Note 54.

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to 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 IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (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 (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 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Consolidated Financial Statements of the Group in the period of initial application.
At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Group`s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the Consolidated Financial Statements, if applied as at the end of the reporting period.

2.3 Currency of the consolidated financial statements

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

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2018.
Control is presumed to exist where the Bank holds, directly or indirectly, more than 50% of the registered capital or where the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss the majority of the members of the Board of Directors.

Notes to the Consolidated Financial Statements

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

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

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

** Relationship: "S"=subsidiary.*

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

2.5 Rounding

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

2.6 Summary of significant accounting policies

a) Categories of financial instruments

The Bank groups the recognised financial assets as follows:

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

- Loans and advances to customers at amortised cost

The Bank groups the recognised financial liabilities as follows:

– **Financial liabilities held for trading**
  - Derivative financial liabilities

– **Financial liabilities classified at fair value through profit or loss**
  - Financial liabilities at fair value through profit or loss, other than derivatives

– **Financial liabilities measured at amortised cost (other financial liabilities):**
  - Due to banks
  - Deposits from customers
  - Issued securities

b) Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.

c) Securities at fair value through profit or loss

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.

d) Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses (Fair value 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, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in consolidated statement of profit or loss for the applicable period.

e) Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, partner banks sell independent and separated liens (which are used as collateral for housing loans) to the Bank. The independent and separated lien is then sold back to the partner banks such way that the repurchase of the independent lien is scheduled to mirror the principal repayment schedule of the particular mortgage loan of the partner bank's customer. The instalment from the partner banks is due irrespective of whether or not the partner bank receives repayments from its customer.

The individual mortgage loans of the partner banks' customers that are refinanced are in conformity with the relevant statutory requirements (being that these loans are performing). The classification is made, impairment is reported and receivables from the clients is reported for these individual loans by the partner banks. Refinanced mortgage loans are classified as performing because by purchasing the independent and separated lien the Bank gives a long-term loan to the partner commercial bank and the client risk is entirely borne by the partner banks, the risk the Bank bear is the credit risk of the partner banks.

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

f) Loans and advances to customers at amortised cost

Loans provided directly to customers are reported as loans and advances to customers and are measured at amortized cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

All loans and advances are recognized upon their disbursement.

g) Restructuring of loans

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

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.

In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program, see note 2.9) 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.

h) Impairment losses on loans

IFRS 9:
Impairment losses on loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.
Impairment losses on loans and placements with other banks is recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model allowance for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition, unless purchased or originated credit-impaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss.

IAS 39, (comparative data is prepared on this basis):
On the balance sheet date the Bank group assesses loans and advances to clients and determines whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Impairment on a particular loan or a group of similar loans is recognized if their book value is greater than the estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The impairment for significant loans is assessed individually. For those loans that are of insignificant in their individual amounts the Bank assesses impairment on a portfolio basis, taking into consideration the type and the classification of the loan, non-performance history and losses.
The Bank writes off loss on loans and advances when borrowers are unable to fulfil their obligations to the Bank and when relevant evidence has been obtained through the appropriate legal proceedings. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. The impairment of loans and advances are recognized as credit loss expenses. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

Notes to the Consolidated Financial Statements

The Group applies individual evaluation for receivables from non-retail customers, reverse mortgage transactions.
In the course of individual evaluation the credit rating department and decisive management evaluate wholly all observable information during definition of rating classes and amount of impairment, mainly amount of receivables, default, foreclosures, debtor's payment discipline, attitude, etc.
The Group applies collective and statistical evaluation in cases of covered receivables from retail customers and overdraft receivables from retail customers.
The Group applies collective and simplified evaluation in cases of uncovered receivables except of overdraft receivables.

i) Leases

Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets.

The Bank as lessee
In the context of operative lease schemes the lessor does not essentially transfer the Bank all risks and benefits associated with ownership. Lease payments pursuant to an operative lease transaction are recognized in the expense item on a straight-line basis throughout the terms of the lease. Contingent lease fees are recognised as expense when incurred.
Asset held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

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

j) Acquisitions and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized assets) and liabilities (including contingent liabilities) of the acquired business at fair value. A negative difference is recognised directly in the earnings for the year of the acquisition. Goodwill is measured as the excess of the sum of the consideration transferred the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
Initially goodwill is measured at cost. Following initial recognition, the Bank runs an impairment test annually and measures goodwill at cost less any accumulated impairment.
An asset is identifiable if it is separable or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Notes to the Consolidated Financial Statements

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

k) Investment property

Investment properties are initially reported at cost, taking transaction costs into consideration. Cost includes purchase price and any other direct expense related to the transaction. Direct expenses include, for instance, fees paid for legal services, property transfer tax and other transaction costs. Subsequent to initial recognition investment properties are remeasured at fair value.

l) Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any. Depreciation is charged to the statement of profit or loss in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Real estate	2%
Leasehold improvement	6%
Equipment and furniture	9% - 33%
Software	10% - 33%
Rights representing assets	3.5% - 16.7%
Hardware	33% - 50%
Vehicles	20% - 33%
Other fixed assets	9% - 14.5%

Intangible assets have a definite useful life, excluding goodwill.

m) Impairment of non-financial assets

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

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

All figures in tables are in HUF million except otherwise noted

n) 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.

o) 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.

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

The following lines in the profit or loss statement contain the gains or losses in connection with the hedging instruments of hedges (swaps):
(a) Interest income or interest expense
(b) Gains or losses from foreign exchange transactions
(c) The remaining change from fair value adjustment in Change in fair value of derivatives

p) Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The rates applied are in accordance with the provisions of the Hungarian taxation law.

q) Deferred taxes

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

r) Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

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

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

s) Financial liabilities carried at amortized cost

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

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

t) 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).

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

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

u) Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when it is due in accordance with terms of a debt instrument.
Financial guarantee contracts are initially recognised in the financial statements within 'Provisions' at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expense required to settle any financial obligation arising as a result of the guarantee.
The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.
Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Credit loss expense'.

Notes to the Consolidated Financial Statements

v) Derecognizing of financial instruments

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

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

When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.

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

w) Repurchase and reverse repurchase transactions

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

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

x) 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.

y) Short term employee benefits

Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

z) Long term employee benefit plans- pensions

In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions (mandatory contribution) and other personnel expenses (voluntary contribution) and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

aa) Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. Treasury shares are accounted for at weighted average cost. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss.

bb) Share-based payment

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

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

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

cc) Income and expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

dd) Interest subsidy

State interest subsidy

Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy).

Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

A new Hungarian legislation became effective from 1 January 2007 under which a 5% withholding tax is to be paid for the interest income on subsidized mortgage loans. This additional tax is reported in 'General and administrative expenses'.

Those loans which connect interest subsidy are measured at amoritised cost, meet the requirement of the SPPI test, and the allowance is calculated according to expected credit loss model. (see the credit risk model in notes 39)

Mortgage bond interest subsidy

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

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

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

Supplementary interest subsidy

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

ee) Contingent liabilities / contingent assets

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

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

ff) Post balance sheet events

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

gg) Segment information

An operating segment is a component of an entity:
(a) that engages in business activities from which it may earn revenues and incur expenses;
(b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
(c) for which discrete financial information is available.
Operating segments can engage in business activities that have not yet generated income; for instance foundation related transactions can be pre-income operating segments.

The Bank takes the following factors into consideration when determining whether services are interconnected: nature of services, type or group of clients buying the services, methods applied in the course of service provision, and the regulatory environment. The Bank presents each segment whose contribution to (internal and external) revenue, earnings or balance sheet total is material, in consideration of other material provisions of IFRS 8 (Note 52). The data related to the business segments of own lending and refinancing, are separated in the balance sheet (under Notes 18 and 19) and in the statement of profit or loss (under Note 4).
Geographical segmentation has also been analyzed. Since the revenue, earnings or balance sheet total of the German branch office is under 10%, no presentation of geographical segmentation has been made.

hh) Offsetting

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

ii) Foreign currency translation

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

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

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

jj) Trade date and settlement date accounting

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

kk) Bank tax

The credit institutions as financial institutions are taxable entities of the Act LIX of 2006 on the Introduction of Special Tax and Bankers' contribution intended to improve the Balance of Public Finances.
For tax years 2018 and 2017 the tax base is the total assets according to Hungarian Accounting Standards of the second financial year preceding the tax year (2016, 2015), which can be decreased by decreasing items under the Act.

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

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

2.7 Significant accounting judgements and estimates

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

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

Fair value of financial instruments
In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 35)

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

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 11)

Loan impairment test and its result

IFRS 9:

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

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology (see notes 39) is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

Comparative data is presented according to IAS 39:

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 other assets

The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.

When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.

Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

For more details see Notes 21 and 22.

2.8 Reclassification and error

After the balance sheet date of the consolidated financial statements of 2017 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

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

According to the Monetary Council's decision of 21 November 2017, the Hungarian National Bank announced a mortgage bond purchase program, in the framework of which the Hungarian National Bank buys mortgage bonds that meet certain conditions, and which are based in Hungary. In 2018 the Mortgage Bank participated in this program of the Hungarian National Bank with great success.

With its 20/2015. (VI.29.) regulation, the Hungarian National Bank increased the minimum level of the Mortgage Financing Indicator from 0.15 to 0.20, and also started a mortgage bond purchase program, which lead to the raising of the refinancing portfolio of the Mortgage Bank.

3. CHANGE IN ESTIMATES

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

Notes to the Consolidated Financial Statements

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	2018	2017
Interest income		
Loans and advances to customers at amortised cost and fair value	18,122	17,542
Refinanced mortgage loans	2,338	2,644
Due from banks	296	396
Interest income on assets carried at amortised cost	*20,756*	*20,582*
Securities at fair value through profit or loss	-	425
Securities at fair value through other comprehensive income	1,736	857
Interest on derivative transactions	1,238	820
Interest income on assets carried at fair value	*2,974*	*2,102*
Total	**23,730**	**22,684**

Accrued interest receivable on stage 3 impaired loans amounted to HUF 62 million in 2018 according to IFRS 9. Accrued interest receivable on impaired loans amounted to HUF 36 million in 2017 according to IAS 39.

	2018	2017
Interest expense		
Mortgage bonds	6,070	6,811
Due to banks	61	46
Interest paid on deposits	521	1,008
Interest on bonds	361	769
Interest expense on leases	-	-
Interest expense on liabilities carried at amortised cost	*7,013*	*8,634*
Interest on derivative transactions	1,303	867
Mortgage bonds	723	338
Interest on bonds	-	-
Interest expense on liabilities carried at fair value	*2,026*	*1,205*
Total	**9,039**	**9,839**

The interest income from loans and refinanced mortgage loans includes HUF 1,642 million interest subsidy in 2018 (2017: HUF 2,372 million).

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	2018	2017
Fee and commission income		
Mortgage loans of the Bank	380	566
Refinanced mortgage loans	501	70
Handling commission	153	168
Real estate appraisal fee	82	84
Deposit fee income	3,707	3,587
Agency fee income	608	348
Card business	2,063	1,881
Investment services	6	301
Postal giro (PEK) commission	382	374
Other	309	432
Total	**8,191**	**7,811**

	2018	2017
Fee and commission expense		
Investment services*	-	593
Agency fees and commissions	740	601
Card business	1,710	779
Treasury services	235	-
Fees and commissions to banks and to clearing house	172	166
Postal giro (PEK) commission	14	0
Other	278	97
Total	**3,149**	**2,236**

* MTB Magyar Takarékszövetkezeti Bank Zrt. extended the provision of investment services also to the customers of the Group from 2017, supported by the Takarék Commercial Bank, as investment agent.

6. OTHER OPERATING INCOME

	2018	2017
Reversal of provision*	2,856	-
Income from sold inventory	235	9
Rental income on property	1,030	65
Invoiced expenses and services	562	581
Tax refunds for previous years	511	160
Other	179	275
Total	**5,373**	**1,090**

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

All figures in tables are in HUF million except otherwise noted

7. OTHER OPERATING EXPENSE

	2018	2017
Bank tax (detailed in a) below)	2,937	3,503
Other payable taxes and contributions*	698	820
Impairment of non-financial assets	637	1,580
Provision for expected liabilities (Note 30)	-	3,988
Donation	-	5
Tax penalty, late penalty	24	72
Supervisory and other fees	1,123	1,246
Loss on sold property	217	35
Loss on damages compensations paid	38	13
Other	66	266
Total	**5,740**	**11,528**

*Include the local business tax and the innovation contribution in 2017 and in 2018.

a) Bank tax

The amount of Bank tax booked for 2018 by group members is detailed in the following table:

	2018	2017
Takarék Mortgage Bank Plc.	156	365
Takarék Commercial Bank Ltd.*	2,781	3,138
Total	**2,937**	**3,503**

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

All figures in tables are in HUF million except otherwise noted

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2018	2017
Staff costs	9	6,046	7,270
Marketing and advertising		235	438
General and administrative costs		1,130	1,748
Rental fee	10	914	1,136
Depreciation	21	212	273
Amortisation	22	76	136
Consultancy fees**		1,512	607
Maintenance costs*		8,023	5,513
Other taxes		37	40
Insurance fees		18	38
Database system usage		161	178
Other		241	406
Total		**18,605**	**17,783**

*The maintenance cost increased by HUF million 3,178 because of the reversal of provision set up in 2017 connected to the IT software.

**Consultancy fee increased due to the Takarék Group's adopted new business strategy for the period 2019-2023.

9. STAFF COSTS

	2018	2017
Wages and salaries	4,620	5,262
Social security contribution	1,036	1,330
Other personnel related payments	390	679
Total	**6,046**	**7,270**

Social security 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 724 (2017: 811).

10. RENTAL FEE (OPERATING LEASE)

Non-cancellable operating leases

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

	31 December 2018	31 December 2017
	Minimum lease payments	Minimum lease payments
Within 12 month	2,403	2,243
Between 1 and 5 years	800	1,414
Over 5 years	758	758
Total	**3,961**	**4,415**

	Minimum lease payments	Contingent rents	Sublease payments	Total
Expense in the period 2018	927	-	(12)	914
Expense in the period 2017	1,155	-	(16)	1,139

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

11. INCOME TAX

	31 December 2018	31 December 2017
Current income tax	**-**	**-**
Corporate income tax*	-	-
Deferred tax expense	**163**	**1,889**
Total	**163**	**1,889**

*The local business tax and the innovation contribution are presented on the “Other operating expense” line in the Consolidated Statement of Profit or Loss in 2017 and in 2018.

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
The Act LXXXII of 2016 on the amendment of Act LXXXI of 1996 on Corporate Tax Act modified the tax rate from 19% to 9%. The modification was announced on 20 December 2016 (effective date 1 January 2017).
Based on this information the Group calculated the deferred tax with the 9% tax rate in 2018 and in 2017.

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

	31 December 2018	31 December 2017
Profit/ (Loss) before tax	*6,749*	*(9,322)*
Calculated corporate income tax (9%)	607	(839)
Items modifying the Hungarian tax base	(786)	635
Effect of the reduction of the available taxable profit	274	2,220
Effect of other modifications	68	(127)
Total income tax expense/(benefit)	**163**	**1,889**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Deferred tax position

	31 December 2018				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	(44)	-	(44)	(69)	-
Derivatives	(115)	-	(115)	(235)	-
Impairment	180	-	180	300	-
Suspended interest	(42)	-	(42)	115	-
Acquisition	-	-	-	38	-
Cash-flow hedge reserve	(2)	-	(2)	-	(2)
Tax loss carried forward	990	-	990	(274)	-
Effect of consolidation	(319)	-	(319)	(50)	-
Securities at fair value through other comprehensive income	31	-	31	12	33
Net deferred tax position	**679**	**-**	**679**	**(163)**	**31**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

	31 December 2017				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Disbursement fee	25	-	25	(346)	-
Derivatives	120	-	120	(42)	-
Impairment	(120)	-	(120)	127	-
Suspended interest	(157)	-	(157)	244	-
Acquisition	(38)	-	(38)	3	-
Tax loss carried forward	1,264	-	1,264	(2,477)	-
Effect of consolidation	(269)	-	(269)	363	-
AFS securities	(14)	-	(14)	27	(65)
Deferred tax of foreign subsidiaries	-	-	-	212	-
Net deferred tax position	**811**	**-**	**811**	**(1,889)**	**(65)**

All figures in tables are in HUF million except otherwise noted

12. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2018	31 December 2017
Other comprehensive income		
Cash-flow hedge reserve	25	5
including: change in fair value	25	5
including: reclassification to profit or loss	-	-
Securities at fair value through other comprehensive income	(368)	721
including: change in fair value	(504)	614
including: reclassification to profit or loss	136	107
Foreign currency translation	-	2
Deferred tax effect	31	(65)
Total	**(312)**	**663**

Deferred tax effects relating to other comprehensive income

	31 December 2018			31 December 2017		
	Before tax amount	Deferred tax	Net of tax amount	Before tax amount	Deferred tax	Net of tax amount
Other comprehensive income						
Cash-flow hedge reserve	25	(2)	23	5	-	5
Securities at fair value through other comprehensive income	(368)	33	(335)	721	(65)	656
Foreign currency translation	-	-	-	2	-	2
Total	**(343)**	**31**	**(312)**	**728**	**(65)**	**663**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

13. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group has introduced the new IFRS 9 standard since 1 January 2018, the classification and the reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9 are reported below:

a) Classification of financial assets and liabilities from IAS 39 to IFRS 9

Financial assets	IAS 39		IFRS 9	
	Measurement category	Carrying amount as of 31 December 2017	Measurement category	Carrying amount as of 1 January 2018
Cash on hand	Amortised cost (Loans and receivables)	3,135	Amortised cost	3,120
Balances with the National Bank of Hungary	Amortised cost (Loans and receivables)	33,165	Amortised cost	33,160
Due from banks	Amortised cost (Loans and receivables)	48,797	Amortised cost	48,784
Securities held for trading	FVPL (Held for trading)	46,651	FVPL (Mandatory)	12,484
Financial assets available-for-sale	FVOCI (Available for sale)	80,198	FVOCI FVPL (Mandatory)	112,005 2,343
Derivative financial assets	FVPL (Derivatives held for trading)	410	FVPL (Mandatory)	410
Refinanced mortgage loans	Amortised cost (Loans and receivables)	76,597	Amortised cost	76,596
Loans and advances to customers	Amortised cost (Loans and receivables)	310,632	Amortised cost FVPL (Mandatory)	309,263 209

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

b) Reconciliation of carrying amounts of financial assets from IAS 39 to IFRS 9

Financial assets measured at amortised cost	IAS 39 carrying amount 31 December 2017	Reclassi-fications	Remeasu-rements	IFRS 9 carrying amount 1 January 2018
Cash on hand				
Opening balances under IAS 39	3,135	-	-	3,135
Remeasurement: ECL allowance	-	-	(15)	(15)
Closing balance under IFRS 9	-	-	-	3,120
Balances with the National Bank of Hungary				
Opening balances under IAS 39	33,165	-	-	33,165
Remeasurement: ECL allowance	-	-	(4)	(4)
Closing balance under IFRS 9	-	-	-	33,161
Due from banks				
Opening balances under IAS 39	48,796	-	-	48,796
Remeasurement: ECL allowance	-	-	(12)	(12)
Closing balance under IFRS 9	-	-	-	48,784
Refinanced mortgage loans				
Opening balance under IAS 39	76,597	-	-	76,597
Remeasurement: ECL allowance	-	-	(1)	(1)
Closing balance under IFRS 9	-	-	-	76,596
Loans and advances to customers				
Opening balance under IAS 39	310,632	-	-	310,632
Subtraction: to FVPL (IFRS 9)	-	(209)	-	(209)
Remeasurement: ECL allowance	-	-	(1,160)	(1,160)
Closing balance under IFRS 9	-	-	-	309,263
Total financial assets measured at amortised cost	**472,325**	**(209)**	**(1,192)**	**470,924**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Financial assets measured at FVPL	IAS 39 carrying amount 31 December 2017	Reclassi-fications	Remeasu-rements	IFRS 9 carrying amount 1 January 2018
Securities held for trading				
Opening balance under IAS 39	46,651	-	-	46,651
Reclassification due to business model change	-	(34,168)	-	(34,168)
Closing balance under IFRS 9	-	-	-	12,483
Loans and advances to customers				
Opening balance under IAS 39	-	-	-	-
Addition: from amortised cost (IAS 39)	-	209	-	209
Closing balance under IFRS 9	-	-	-	209
Derivative financial assets				
Opening balance under IAS 39 and closing balance under IFRS 9	410	-	-	410
Total financial assets measured at FVPL	**47,061**	**(33,959)**	**-**	**13,102**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Financial assets measured at 8FVOCI	IAS 39 carrying amount 31 December 2017	Reclassi-fications	Remeasu-rements	IFRS 9 carrying amount 1 January 2018
Investment securities - FVOCI (debt instruments)				
Opening balance under IAS 39	-	-	-	-
Addition: from available for sale (IAS 39)	-	79,516	-	79,516
Reclassificication due to business modell change	-	34,168	-	34,168
Remeasurement: ECL allowance	-	-	(16)	(16)
Closing balance under IFRS 9	-	-	-	113,668
Investment securities - FVOCI (equity instruments)				
Opening balance under IAS 39	-	-	-	-
Addition: from available for sale (IAS 39)	-	682	-	682
Closing balance under IFRS 9	-	-	-	682
Investment securities - Available for sale financial assets				
Opening balance under IAS 39	80,198	-	-	80,198
Subtraction: to mandatory FVPL (IFRS 9)	-	-	-	-
Subtraction: to FVOCI - equity instruments	-	(682)	-	(682)
Subtraction: to FVOCI - debt instruments	-	(79,516)	-	(79,516)
Closing balance under IFRS 9	-	-	-	-
Total financial assets measured at FVOCI	**80,198**	**34,168**	**(16)**	**114,350**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

	Notes	31. December 2018	1 January 2018
Financial assets			
Cash and cash equivalents		*3,157*	*3,120*
Financial assets held for trading		*3,962*	*15,237*
- Securites at fair value through profit or loss		-	14,827
- Derivative financial assets	35	3,962	410
Non-trading financial assets mandatorily at fair value through profit or loss		*164*	*209*
- Loans and advances to customers at fair value	20	164	209
Financial assets at fair value through other comprehensive income		*192,142*	*112,005*
- Securities at fair value through other comprehensive income	17	192,142	112,005
Financial assets at amortised cost		*541,463*	*467,803*
- Balances with the National Bank of Hungary	14	2,073	33,160
- Due from banks	15	61,664	48,784
- Refinanced mortgage loans	19	105,296	76,596
- Loans and advances to customers at amortised cost	20	372,430	309,263
Total financial assets		**740,888**	**598,374**
Financial liabilities			
Financial liabilities held for trading		*2,371*	*1,078*
- Derivative financial liabilities	35	2,371	1,078
Financial liabilities classified at fair value through profit or loss		*6,693*	*7,016*
- Financial liabilities at fair value through profit or loss, other than derivatives	26	6,693	7,016
Financial liabilities measured at amortised cost (other financial liabilities)		*675,381*	*540,183*
- Due to banks	24	156,659	33,983
- Deposits from customers	27	304,333	329,253
- Issued securities	25	214,389	176,947
Total financial liabilities		**684,445**	**548,277**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

14. BALANCES WITH THE NATIONAL BANK OF HUNGARY

Under the Decree No. 10/2005. (11. June) of the National Bank of Hungary (NBH) banks are required to reserve deposit in the NBH, based on the balance/level of their customer deposits and other liabilities/sources which falls under the reserve requirements at a rate of 1% (obligatory).

	31 December 2018	31 December 2017
Short term deposits	-	28,235
Nostro account at National Bank of Hungary	2,071	4,925
Accrued interest for the period	2	5
Total	**2,073**	**33,165**

15. DUE FROM BANKS

	31 December 2018	31 December 2017
Nostro accounts	2,706	3,028
Term deposits	58,967	45,768
Accrued interest for the period	6	1
IFRS 9 impairment	(15)	-
Total	**61,664**	**48,797**

16. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Hungarian Government bonds	-	28,631
Hungarian Treasury bills	-	3,842
Hungarian Development Bank bonds	-	12,271
Mortgage bonds	-	1,138
Student Loan Centre Ltd. bond	-	97
Foreign bonds	-	672
Total	**-**	**46,651**

MTB Magyar Takarékszövetkezeti Bank Zrt. extended the provision of investment services also to the customers of the Group from 2017, supported by the Takarék Commercial Bank, as investment agent. The Bank has sold this portfolio to the MTB Magyar Takarékszövetkezeti Bank Zrt.

All figures in tables are in HUF million except otherwise noted

17. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018	31 December 2017
Hungarian Government bonds	152,995	29,849
Hungarian Discount Treasury bills	12,409	16,822
Domestic issued bonds	18,712	16,191
Mortgage bonds	5,600	8,799
Investment funds	443	449
Foreign bank bonds	1,705	7,857
Equity investments classified as FVOCI	292	231
IFRS 9 impairment	(15)	-
Total	**192,142**	**80,198**

Equity investments include shares of SZHISZ for HUF 20 million (2017: HUF 20 million), shares of Garantiqa Creditgurantee Ltd. for HUF 30 million (2017: HUF 30 million) as well as SWIFT shares for HUF 1 million (2017: HUF 1 million) and VISA Europe shares for HUF 241 million (2017: HUF 180 million). The investments represent less than 1% stake in the companies, these securities are classified as FVOCI category in 31 December 2018.

18. SALE AND PURCHASE OF SUBSIDIARIES, CHANGE IN THE GROUP OWNERSHIP INTEREST IN SUBSIDIARIES

Purchase of subsidiaries, change in the group ownership interest in subsidiaries

There was no purchase of subsidiaries or change in the group ownership interest in subsidiaries in 2018 and in 2017.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

19. REFINANCED MORTGAGE LOANS

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

The Bank signed contracts with several major Hungarian commercial banks to refinance mortgage loans; hence state subsidized the mortgage loans are available through the entire network of these commercial banks. Later, Takarék Mortgage Bank refinanced also market rate (not supported) mortgage loans. In 2018, the refinanced portfolio changed significantly due to the MFAR (Mortgage funding adequacy ratio) indicator coming into force on 1 April 2017 (20/2015 and 6/2016 NBH decrees), as a result the refinancing activity of Takarék Mortgage Bank has been highly active. By the end of 2018 the number of refinanced bank partners increased to 12. As a result, the refinanced loan portfolio of the Mortgage Bank increased by 25.42% and amounted to HUF 169.29 billion (with the refinanced loan portfolio of Takarék Commercial Bank) at the end of the year. The balance as at 31 December 2018 includes loans disbursed to 30,846 customers (2017: 31,017).

20. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Housing loans	130,261	113,034
General purpose mortgage loans	65,438	66,584
Customer loans and overdrafts	13,062	10,330
Loans to employees	923	1,159
Loans to companies at amortised cost	169,641	132,731
Loans and advances to customers at amortised cost gross subtotal	**379,325**	**323,838**
Loans to companies at fair value	164	-
Loans gross subtotal	**379,489**	**323,838**
Fair value adjustment of hedged items	240	28
Accrued part of disbursed loans under Funding of Growth Scheme*	-	*2,768*
Derecognition	(336)	(1,300)
Accrued interest	5,206	4,773
Amortized origination cost	610	(115)
Loans gross total	**385,209**	**327,224**
Loan impairment	(12,615)	(16,592)
Loan portfolio reported	**372,594**	**310,632**

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Loan impairment based on individual rating: HUF 2,468 million (2017: HUF 13,118 million), based on portfolio rating: HUF 10,147 million (2017: HUF 3,473 million).

Changes in impairment for credit losses:

	31 December 2018	31 December 2017
Impairment as at 1 January	16,592	23,853
IFRS 9 implementation effect	1,370	-
Provision for impairment in the period	3,956	5,708
Exchange rate change of impairment	50	(36)
Reverse of impairment for the period	(5,433)	(10,234)
Derecognition due to foreign currency loans conversion to HUF at a fixed rate	-	-
Derecognition due to sale of assets	(3,920)	(2,389)
Derecognition due to disposal	-	(310)
Impairment as at end of period	**12,615**	**16,592**

Breakdown of the credit loss expense for the period

	31 December 2018	31 December 2017
Change of impairment in the period*	(1,476)	(4,525)
Unwinding interest effect on impairment	(2,147)	-
Losses from the repayment of the loans at a fixed rate	8	34
Written-off loans	437	1,149
Loss on loans sold	1,704	4,017
Loss on terminated loans	94	75
Impairment on financial assets other than loans	30	-
Charge for commitments	593	884
Credit losses on loans and advances and other financial assets	**(757)**	**1,634**

* The abovementioned change of impairment in the period does not include the derecognition related to forint conversions, the effect of derecognition due to the sale of assets and the foreign exchange difference on impairment (which is recognised on the Profit/(loss) from foreign exchange transactions line in the Consolidated Statement of Profit or Loss).

The aggregate amount of stage 3 loans was HUF 10,326 million as of 31 December 2018 (31 December 2017: HUF 22,878 million the non-performing loans).
Within the total balance of mortgage loans 99.46% have maturity over five years (2017: 99.78%), exceeding the minimum level of 80% that is required by the Section 5(1) of Act XXX of 1997 on Mortgage Loan companies.

The total outstanding mortgage loan principal does not exceed 70% of the aggregate collateral value of real estate determined at loan disbursement that is required by the Section 5(3) of Act XXX of 1997 on Mortgage Loan Companies. As of 31 December 2018, loan to value is 29.38% (31 December 2017: 31.02%).

All figures in tables are in HUF million except otherwise noted

21. TANGIBLE ASSETS 31 December 2018

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

TANGIBLE ASSETS 31 December 2017

	Property and Leasehold improvement	Office equipment	Total
Gross value			
Opening balance	7,810	3,840	11,650
Increase	178	79	257
Decrease	(2,993)	(129)	(3,122)
Derecognize of tangible assets due to disposal	(1,480)	(2,400)	(3,880)
Closing balance	**3,515**	**1,390**	**4,905**
Depreciation			
Opening balance	1,722	3,428	5,150
Annual depreciation	168	105	273
Annual depreciation from discontinued operations	1	25	26
Decrease	(263)	(60)	(323)
Derecognized depreciation of tangible assets due to disposal	(710)	(2,692)	(3,402)
Closing balance	**918**	**806**	**1,724**
Impairment			
Opening balance	1,547	11	1,558
Increase*	210	124	334
Decrease**	(1,100)	-	(1,100)
Derecognized impairment of tangible assets due to disposal	(447)	(11)	(458)
Closing balance	**210**	**124**	**334**
Net value	**2,387**	**460**	**2,847**

*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 impairment of 2017 connected to the branch building where the recoverable amount is lower than the net assets. The impairment is presented on the "Other operating expense" line in the Consolidated Statement of Profit or Loss in 2017.
**Takarék Invest Ltd. has sold the property in autumn of 2017, the decrease includes the impairment of this property.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

22. INTANGIBLE ASSETS 31 December 2018

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

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

The Bank estimates the recoverable amount of the intangible asset. The impairment of this year connected to the agency cooperation where the recoverable amount is lower than the net assets. The impairment is presented on the “Other operating expense” line in the Consolidated Statement of Profit or Loss in 2018.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

INTANGIBLE ASSETS 31 December 2017

	Software	Other intangible assets	Agency cooperation	Total
Gross value				
Opening balance	4,005	917	645	5,567
Increase	426	7	-	433
Decrease	-	-	-	-
Derecognize of intangible assets due to disposal	(1,693)	(495)	-	(2,188)
Closing balance	**2,738**	**429**	**645**	**3,812**
Amortisation				
Opening balance	2,977	501	199	3,677
Annual amortisation	81	23	32	136
Annual amortisation from discontinued operations	-	15	-	15
Decrease	-	-	-	-
Derecognized amortisation of tangible assets due to disposal	(1,456)	(389)	-	(1,845)
Closing balance	**1,602**	**150**	**231**	**1,983**
Impairment				
Opening balance	-	-	-	-
Increase	579	122	-	701
Reversal	-	-	-	-
Closing balance	**579**	**122**	**-**	**701**
Net value	**557**	**157**	**414**	**1,128**

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2017.

The Bank estimates the recoverable amount of the intangible asset. The impairment of 2017 connected to the intangible of Magyar Kártya Szolgáltató Ltd. where the recoverable amount is lower than the net assets. The impairment is presented on the “Other operating expense” line in the Consolidated Statement of Profit or Loss in 2017.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

23. OTHER ASSETS

	31 December 2018	31 December 2017
Prepaid expenses	1,362	205
Reclaimable taxes	845	313
Settlements with the Hungarian State	124	149
Repossessed collateral	103	177
Debtors	499	547
Deposits	3,354	3,060
Receivables from investment services	-	10
Accrued part of disbursed loans under Funding of Growth Scheme*	2,944	-
Other	1,158	1,745
Total	**10,389**	**6,206**

*The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other assets in 2018.

In case of properties held for sale and repossessed collaterals the Group endeavours to sell the properties as soon as possible.

24. DUE TO BANKS

	31 December 2018	31 December 2017
Long term loans received	17,193	22,001
Short term loans received	139,465	9,120
Accrued part of disbursed liabilities under Funding for Growth Scheme*	-	2,861
Accrued interest	1	1
Total	**156,659**	**33,983**

* See Notes 20. The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other liabilities (Notes 30) in 2018.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

25. ISSUED SECURITIES

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

	31 December 2018		31 December 2017	
	Gross book value	Face value	Gross book value	Face value
Non-listed mortgage bonds				
Fixed interest	16,480	16,449	16,573	16,449
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	177,406	176,200	61,417	56,915
Floating interest	10,067	10,072	86,339	86,513
Total mortgage bonds	**203,953**	**202,721**	**164,329**	**159,877**
Non-listed bonds				
Fixed interest	-	-	1,084	1,078
Floating interest	-	-	-	-
Subordinated bonds	-	-	-	-
Listed bonds				
Fixed interest	5,836	5,786	7,371	7,261
Floating interest	-	-	275	275
Total bonds	**5,836**	**5,786**	**8,730**	**8,614**
Accrued interest (*mortgage bonds*)	4,431	-	3,588	-
Accrued interest (*bonds*)	169	-	300	-
Total issued securities	**214,389**	**208,507**	**176,947**	**168,491**

Mortgage bonds

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

(i) Cover for the nominal value: the nominal value of the ordinary collateral (the underlying principal excluding the provision for any impairment loss and interest) should exceed 100% of the not yet repaid nominal value of the mortgage bonds outstanding,

(ii) If point (i) is not met, the Bank has to acquire additional collateral to the extent that the sum of the nominal values of the ordinary and additional collaterals always exceed 100% of the not yet repaid minimal value of the mortgage bonds outstanding,

(iii) Cover for the interest: the interest on the nominal value of the ordinary and supplementary collaterals should exceed 100% of the interest on the not yet repaid nominal value of the mortgage bonds outstanding.

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

Bonds

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

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

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

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, EXCEPT DERIVATIVES

The Group reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position. (Description is included in Point 26 of Notes.)
Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than attributable to change in market conditions, that give right to market risk represent credit risk.

	31 December 2018		31 December 2017	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	6,693	5,787	7,016	5,893
Floating interest	-	-	-	-
Total mortgage bonds	**6,693**	**5,787**	**7,016**	**5,893**
Total Financial liabilities at fair value through profit or loss, except derivatives	**6,693**	**5,787**	**7,016**	**5,893**

The total credit risk which is due to financial liabilities through profit or loss was HUF 80.9 million as of 31 December 2018 (31 December 2017: HUF 68.8 million).

27. DEPOSITS FROM CUSTOMERS

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

	31 December 2018	31 December 2017
Current accounts	198,416	166,453
Term deposits	105,839	162,594
Accrued interest	78	206
Total	**304,333**	**329,253**

All figures in tables are in HUF million except otherwise noted

28. SHARES IN ASSOCIATES AND JOINT VENTURES

	31 December 2018	31 December 2017
Opening balance	-	4,816
Decrease from joint ventures and associates*	-	(4,816)
Closing balance	**-**	**-**

*In 2017 the decrease from joint ventures and associates include the disposal of Takarék Invest Befektetési és Ingatlankezelő Ltd. and its subsidiary and joint ventures to the MTB Magyar Takarékszövetkezeti Bank Zrt.

29. PROVISIONS

Provisions are set up mainly for current and contractual obligation. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense (Note 20) or in other operating expense (Note 7).

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

The credit risk provision in 2018 is attributable to the off-balance sheet items.

On 30 November 2018, the General Meeting of MTB Magyar Takarékszövetkezeti Bank Zrt. adopted the Takarék Group's new business strategy for the period 2019-2023. Due to this the Bank present HUF 459 million provision for the organization changes.

In 2018, the Bank expressed its willingness to change of some information systems and update the used information system, due to the new business strategy. For the contractual obligation, which is part of the existing contract, the Bank has set up provision of HUF 1,989 million.

All figures in tables are in HUF million except otherwise noted

2017	Credit risk provision	Contractual obligation	Other provision	Expected costs of legal cases	Total
Opening balance	396	211	924	15	1,546
Increase in the period	1,012	4,905	-	31	5,948
Utilization in the period	(733)	(61)	(278)	(4)	(1,076)
Provision of discontinued operations	(1)	(150)	(16)	-	(167)
Closing balance	**674**	**4,905**	**630**	**42**	**6,251**

30. OTHER LIABILITIES

	31 December 2018	31 December 2017
Taxes payable	512	1,424
Creditors	107	1,253
Accrued expenses	1,736	914
Liability from investments services	4	44
Customer loan prepayments	840	625
Repo liability	3,767	-
Accrued part of disbursed liabilities under Funding for Growth Scheme*	2,061	-
Other	1,820	1,436
Total	**10,847**	**5,696**

* The Accrued part of disbursed loans under Funding of Growth Scheme is reported in other liabilities in 2018, it has been reclassified from Due to banks (Notes 24).

All figures in tables are in HUF million except otherwise noted

31. SHARE CAPITAL

In the year of 2017 the ownership structure of the Bank Group was significantly altered. On 21 April 2017 the Allianz Hungária Biztosító Ltd sold number of 6,462,005 from its shares, so its right to vote was decreased to 0.02%. On 22 June 2017 the MTB Magyar Takarékszövetkezeti Bank Ltd. made a public bid to the owners of the Bank. As a result of this transaction the MTB Magyar Takarékszövetkezeti Bank Ltd. bought number of 20,092,211 shares and its ownership is 37% as at 31 December 2018.

As of 31 December 2018 the Bank's share capital consists of series "A", "B" and "C" shares. Domestic institutional investors have the majority of shares (91.76%).

The ownership structure of the Bank as at 31 December 2018 and 31 December 2017 was as follows:

	31 December 2018		31 December 2017	
Shareholder	**Holding %**	**Number of shares**	**Holding %**	**Number of shares**
Ordinary shares (Series "A")				
Domestic institutional investors	52.6	57,069,304	50.5	54,735,748
Foreign institutional investors	0.0	20,576	0.1	126,899
Domestic private investors	3.5	3,759,643	5.3	5,750,222
Foreign private investors	0.0	60,400	0.0	39,388
Employees, directors and senior management	0.0	0	0.0	11,517
Government held owner	4.5	4,832,225	4.5	4,832,225
Treasury shares	0.2	253,601	0.2	253,601
Other	0.0	4,261	0.2	250,410
Subtotal	*60.8*	*66,000,010*	*60.8*	*66,000,010*
Dividend preference shares (Series "B")				
Domestic institutional investors	13.1	14,163,430	13.1	14,163,430
Subtotal	*13.1*	*14,163,430*	*13.1*	*14,163,430*
Ordinary shares (Series "C")				
Domestic institutional investors	26.1	2,832,686	26.1	2,832,686
Subtotal	*26.1*	*2,832,686*	*26.1*	*2,832,686*
	100.0	***82,996,126***	***100.0***	***82,996,126***

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

a) The following amounts were used in the calculation of earnings per share:

	31 December 2018	31 December 2017
Profit/(Loss) of shareholders of the Bank	6,897	(3,949)
Change of general reserve	(252)	(460)
Attributable profit	**6,645**	**(4,409)**
Weighted average number of shares	108 236 699	108 236 699

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

b) Treasury shares purchased

	31 December 2018	31 December 2017
Opening balance	207	207
Purchase	-	-
Closing balance	**207**	**207**

c) Other reserves

	Note	31 December 2018	31 December 2017
Share premium		27,926	27,926
General reserve	33	712	460
Cash-flow hedge reserve		28	5
Change in fair value of financial assets at fair value through other comprehensive	31	932	1,267
Foreign currency translation reserve		-	-
Total other reserves		**29,598**	**29,658**

All figures in tables are in HUF million except otherwise noted

d) Securities at fair value through other comprehensive income reserve

	31 December 2018	31 December 2017
Opening balance	1,267	611
Net unrealised gains on securities at fair value through other comprehensive income	(502)	721
Net realised losses on securities at fair value through other comprehensive income	136	-
Deferred tax	31	(65)
Closing balance	**932**	**1,267**

e) Non-controlling interest

	31 December 2018
Opening balance	12,828
Dividend payment to NCI	-
Share of profit/(loss) of the year	(311)
Closing balance	**12,517**

Non-controlling interest detailed by subsidiaries

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

32. SHARE-BASED PAYMENTS

Share options are granted to employees and also others providing similar services, it is difficult to estimate the fair value of those benefits that are coming from these services, therefore the Group measures the fair value by reference to the fair value of the equity instruments granted.
The Group hasn't got approved share based incentive scheme in 2018 and in 2017.

33. GENERAL RESERVE

In accordance with statutory requirements, the Bank and other credit institutions within the Group are required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 712 million as at 31 December 2018 (General reserve was HUF 460 million as at 31 December 2017). The other reserves are presented in Note 31.

34. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Group:

	31 December 2018	31 December 2017
Guarantees	5,414	5,405
Loan commitments	99,445	71,046
Total	**104,859**	**76,451**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following shares disclosed under investment: shares of Garantiqa Creditguarantee Ltd., shares of SWIFT and shares of Integration of Savings Cooperatives the total value of these is HUF 51 million (2017: HUF 51 million). Visa shares are reported for HUF 241 million in 2018 (2017: HUF 180 million).

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

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

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

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

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

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

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

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Refinanced mortgage loans	105,296	105,296	76,597	76,597
Loans and advances to customers at amortised cost	372,737	373,918	310,632	311,629

b) Fair value of mortgage bonds and bonds carried at amortised cost

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

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

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

	31 December 2018		31 December 2017	
	Bookvalue	Fair value	Book value	Fair value
Non-listed mortgage bonds				
Fixed interest	17,528	17,955	17,621	19,281
Floating interest	-	-	-	-
Listed mortgage bonds				
Fixed interest	180,772	182,491	63,836	68,560
Floating interest	10,086	10,107	86,460	87,125
Total mortgage bonds	**208,385**	**210,553**	**167,917**	**174,966**
Non-listed bonds				
Fixed interest	-	-	1,153	1,165
Floating interest	-	-	-	-
Listed bonds				
Fixed interest	6,004	6,153	7,601	7,930
Floating interest	-	-	276	276
Total bonds	**6,004**	**6,153**	**9,030**	**9,371**
Total issued security	**214,389**	**216,706**	**176,947**	**184,337**

Book value also includes the accrued interests.

c) 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.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

d) 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 2018	31 December 2017	31 December 2018	31 December 2017
Derivatives designated as cash-flow hedges				
Positive fair value of cash flow hedges	1	14	33	909
Including: CCIRS	1	14	33	909
Swap deals classified as HFT				
Positive fair value of trading swaps	3,961	339	103,796	33,249
Including: CCIRS	-	-	-	-
Including: IRS	3,941	261	103,153	21,829
Including: FXS	20	78	643	11,420
Fair value hedge				
Positive fair value of IRS fair value hedge	-	2	-	620
Including: CCIRS	-	-	-	-
Including: IRS	-	2	-	620
Forward deals				
Positive fair value of forward deals	-	55	-	1,828
Total derivative financial assets	**3,962**	**410**	**103,828**	**36,606**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Derivatives designated as cash-flow hedges				
Negative fair value of cash flow hedges	(11)	(2)	1,475	545
Including: CCIRS	(11)	(2)	1,475	545
Swap deals classified as HFT				
Negative fair value of trading swaps	(1,896)	(653)	127,286	56,069
Including: CCIRS	-	-	-	-
Including: IRS	(1,896)	(464)	127,286	42,400
Including: FXS	-	(189)	-	13,669
Fair value hedge				
Negative fair value of fair value hedges	(464)	(375)	29,577	17,561
Including: CCIRS	-	-	-	-
Including: IRS	(464)	(375)	29,577	17,561
Forward deals				
Negative fair value of forward deals	-	(47)	26	6,559
Total derivative financial liabilities	**(2,371)**	**(1,078)**	**158,363**	**80,735**

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

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

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

Cash flow hedge transactions as defined by IFRS 9 have been performed in order to eliminate the risk of foreign currency in case of EUR denominated mortgage bond issuances, thus the cash-flow in currency of booking can be fixed. The main conditions of these swap contracts (maturity, notional amount, currency,

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

interest rate and payment dates, etc.) and consequently the cash flows are identical to those of the underlying hedged instruments.

Swap contracts used for trading purposes are also tied to EUR mortgage bonds. The conditions of the EUR leg of the swap is identical to the mortgage bond as in the case of cash-flow hedge transactions, however, the interest type concerning the liabilities of the swap may be different and the currency is not necessarily the currency of booking.

In case of the valuation of forward security deals the used yield curves are consistent with the nature of the paper in the forward deal (for example in case of government bonds the Bank uses the yield curve of the government bonds).

e) Fair value hedge transactions

31 December 2018

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Losses on the hedging instrument	Gains on the hedged items
IRS	loans and advances to customers at amortised cost	(262)	15,575	(240)	240
IRS	Securities at fair value through other comprehensive income	(202)	11,029	(99)	99

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

31 December 2017

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	loans and advances to customers	(33)	4,497	(28)	28
IRS	available-for-sale asset	(172)	1,772	44	(44)

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

f) Fair value of financial instruments carried at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	31 December 2018		
	Level 1	Level 2	Level 3
Assets			
Securities at fair value through other comprehensive income	191,699	443	-
Derivative financial assets	-	3,961	1
Total assets carried at fair value	**191,699**	**4,404**	**1**
Liabilities			
Derivative financial liabilities	-	2,360	11
Financial liabilities at fair value through profit or loss, except derivatives	-	6,693	-
Total liabilities carried at fair value	**-**	**9,053**	**11**

	31 December 2017		
	Level 1	Level 2	Level 3
Assets			
Securities at fair value through profit or loss	46,651	-	-
Securities at fair value through other comprehensive income	79,748	449	-
Derivative financial assets	-	396	14
Total assets carried at fair value	**126,399**	**845**	**14**
Liabilities			
Derivative financial liabilities	-	1,076	2
Financial liabilities at fair value through profit or loss, except derivatives	-	7,016	-
Total liabilities carried at fair value	**-**	**8,092**	**2**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

36. RISK MANAGEMENT

a) Overview

Takarék Mortgage Bank Plc. and its subsidiary – Takarék Commercial Bank Ltd. – are members 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 both banks.

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

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

The risk capacity of Takarék Mortgage Bank Plc. and Takarék Commercial Bank 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 Takarék Mortgage Bank Plc. and Takarék Commercial Bank Ltd. 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 Banking Group's risk management policy 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.

In 2018 regarding to credit risk in accordance with the aims set the refinanced loan portfolio increased and the customer loan portfolio increased with the dynamic reduction of non-performing loans in via sales.

To maintain a diversified liability structure in 2018 Takarék Mortgage Bank Plc. obtained sources from the capital markets several times through security issue, which replaced the maturing liabilities with long term liabilities. The deposit portfolio of Takarék Commercial Bank Ltd. decreased due to the persistently low interest rate enviroment. The bank disposed significant amount of liquid assets during the year, mainly in form of government securities.

37. RISK MANAGEMENT STRUCTURE

Board of Directors

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

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

Supervisory Board

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

Risk Control Board

The competence of the Risk Control Committees of the Banks includes risk strategy, capital management and operational risk issues.

Assets and Liabilities Committee

The Assets and Liabilities Committee of the banks make decisions with respect to assets and liability management, market-, liquidity-, and counterparty risk management furthermore product development and pricing issues.

Departments of Risk Management

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.

Assets and Liabilities Management and Liquidity Management Departments

Assets and Liabilities Management and Liquidity Management departments are responsible for ensuring the short-term and long-term liquidity of the banks, and for the operative management of liquidity, interest and exchange rate related risks, prudent management of the balance sheet structure.

Internal Audit

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

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

Property supervisor

Prior to the mortgage bond issue, the property supervisor reviews whether the Bank is in possession of adequate collateral for the issue and makes a statement accordingly.

Risk evaluation and reporting system

In areas of risk exposure where appropriate empirical data are available the Banks apply statistical methods for the evaluation of risks. Statistical models are used for estimating expected and unexpected losses in most areas of exposure. Losses are evaluated according to a variety of stress scenarios.

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Banks collect and analyse data about events and losses related to risk from operation. As a result of risk assessment the Banks determine the level of capital justified by the level of acceptable exposure. The Assets and Liabilities Committees evaluate the risk reports on a monthly basis and the Risk Control Board at least on quarterly basis and decide on topics within their competence. The Boards of Directors discuss the risk reports every quarter and exercise professional control over all components of the system through demanding reports from Management. The Supervisory Board evaluate the reports on risks on a quarterly basis, they exercise their function of ongoing control through the Internal Audit departments under its professional supervision.

38. RISK MITIGATION

Interest rate and exchange rate risks

To minimize the risk of interest- and foreign exchange rate risks the Banks manage their asset and liability structurewith natural hedge and also enter into derivative contracts.

Credit risk

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

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

For refinancing the partner banks should ensure the continued compliance of the exposures with the refinancing conditions besides their own credit quality.

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

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

The Banks apply strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio. The collateral value of real estate covering mortgage loans is established by the Takarék Mortgage Bank Plc. also for the refinanced loans portfolio.

Notes to the Consolidated Financial Statements

Risks towards partner banks are minimized by means of bilateral agreements and the assignment of the refinanced loan portfolio as prescribed by law.

Credit risk relating to hedge swaps is limited to the amount of positive fair value over and above margin accounts.

Maximum credit risk exposure based on gross outstanding balances:

	31 December 2018	31 December 2017
Balances with the National Bank of Hungary	2,073	33,165
Dues from banks	61,664	48,797
Financial assets at fair value through profit or loss	-	46,651
Securities at fair value through other comprehensive income	192,142	80,198
Derivative financial assets	3,962	410
Refinanced mortgage loans	105,296	76,597
Loans and advances to customers at amortised cost and fair value	379,489	323,838
Other assets	10,390	6,206
Total	**755,016**	**615,862**
Off-balance sheet commitments	104,859	70,751
Total	**104,859**	**70,751**
Total credit risk exposure	**859,875**	**683,613**

39. CREDIT RISK

IFRS 9 replaces the rules under IAS 39 for impairment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the European Union (EU).

Impairment

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Staged Approach to the Determination of Expected Credit Losses

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

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

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

Significant Increase in Credit Risk

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

Credit Impaired Financial Assets in Stage 3

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

Default

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

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

Purchased or Originated Credit Impaired Financial Assets

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

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

Model Descriptions - Expected Credit Loss

Stage Determination

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

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

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

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

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.

Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk. The expected lifetime is estimated by taking into consideration historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. Where such facilities are subject to an individual review by Credit Risk Management, the lifetime for calculating expected credit losses.

Notes to the Consolidated Financial Statements

Forward-Looking Information

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

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

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

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

Assumptions and the Estimation Techniques

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

The Bank uses three main components to measure ECL. These are PD, Loss Given Default (LGD) and Exposure at Default (EAD). Incorporating forecasts of future economic conditions into the measurement of expected credit losses influences the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect economic forecasts.

The expected credit loss calculation for stage 3 distinguishes between transactions in homogeneous and non-homogenous 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.

Notes to the Consolidated Financial Statements

IFRS 9 credit risk tables are presented below.

Gross carrying amount movement table- Balance Sheet - 31 December 2018

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

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

All figures in tables are in HUF million except otherwise noted

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Exposure to credit risk on loan commitments and financial guarantees					
Loan commitment	98,967	146	333	-	99,446
Bank guarantees	5,378	-	35	-	5,413
Total exposure	**104,345**	**146**	**368**	**-**	**104,859**

Impairment

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Provision

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

Impairment

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)				
Retail mortgage loans	11,756	4,157	7,599	12,701
Retail other loans	3,465	2,864	601	46
Corporate mortgage loans	4,701	2,104	2,597	8,176
Corporate other loans	2,573	1,201	1,372	565
Total credit-impaired assets	**22,495**	**10,326**	**12,169**	**21,488**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Lending risk exposure of the Bank in terms of internal risk classification

Class	Historic default rate 31.12.2018 (%)	Uncovered 31.12.2018 HUF million	Total 31.12.2018 HUF million
Class 1	0.00	182,678	182,678
Class 2	0.00	1,094	1,094
Class 3	0.00	8,527	10,335
Class 4	0.27	20,344	109,819
Class 5-7	3.38	105,075	224,394
Class	**Historic default rate 31.12.2017 (%)**	**Uncovered 31.12.2017 HUF million**	**Total 31.12.2017 HUF million**
Class 1	0.00	100,247	100,247
Class 2	0.00	2,612	2,612
Class 3	0.00	11,507	49,582
Class 4	0.11	19,868	140,480
Class 5-7	1.99	89,799	270,673

The table shows the Bank gross outstanding loans portfolio (dues from banks, refinanced mortgage loans and other mortgage and unsecured loans and bonds).
In the calculation of risk capital, in accordance with its internal risk management policy, the Bank classifies its loan portfolio and its weighted off-balance items in different rating categories. Consolidated data based on the International Financial Reporting Standards (IFRS) are used in the classification. Retail customers are rated into seventeen categories (classes). Other partners (mainly credit institutions) are rated into seven categories. The classes are determined based on customer rating policy. The Bank consolidated the two sets of classes in the above table, in this way the historical default rates of the entire portfolio are combined and broken down in terms of rating classes.
The classification of credit assets into risk grades is based on Takarék Group's internal rating system. Internal rating models and risk parameters are developed by internal specialist team. Rating development follows internal methodology, which is controlled continuously by the Internal Audit as well as by the supervisory authorities.
The Bank applies different rating scales in different segments, but applies a standardized framework for external reporting, which is mapping the risk classes to the following categories.

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

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

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

Class 4:
In this category are included the best qualified retail and corporate customers which default rate is low. These customers have excellent credit history, and a balanced business management (in case of companies).

Notes to the Consolidated Financial Statements

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

Class 5-7:
All exposures which are not included in classes 1-4, have to be classified to this category.

The following table present the Group's receivables and commitments according to IAS 39 in 2017.

	Neither past due nor impaired	Past due or individually impaired	Assessed under collective impairment rules	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Dues from banks and refinanced mortgage loans	81,168	-	-	81,168
Loans, commitments and guarantees	301,197	71,630	23,383	396,210
To corporate customers	149,819	47,522	-	197,341
To retail customers	151,378	24,108	23,383	198,869
Total	**382,365**	**71,630**	**23,383**	**477,378**

The amount of the non-performing loans (Note 20) differs from the amount of the portfolio of past due or individually impaired loans (see above) because the latter contains loans which are due less than 90 days and are not terminated.

Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor or the Group's initiative, basically based on the fact that the borrower is considered to be unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor's financial difficulties and significant deterioration of ability to pay.
Furthermore buffer account loans granted within the framework of the FX rate protection scheme are qualified as forborne as loans, as well as ones concerning to the buffer account loan has been opened.

In comparison with the original term and conditions, essentially more favourable conditions are arising for clients by modification of contract.
Modifications of the terms and conditions can be the following:

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

Rating of forborne loans:

1. If the loans are classified as forborne loans the classification category can not be better than it was before.
2. The forborne loans are classified as "to-be- monitored" if the original loan was classified as "problem-free" or "to-be- monitored" and following the forbearance, the number of days past due

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 180 days without break.

3. The forborne loans are possible to be classified as "problem free" after one year of the forbearance if the number of days past due did not exceed 15 days in case of corporate loans or 30 days in case of retail loan, respectively, during 365 days without break.

An analysis of forborne gross loan portfolio by loan types as 31 December 2018 and 2017

Loan type	31 December 2018	31 December 2017
Individual loans	13,562	19,039
Fx rate protection scheme (original loan)	3,430	4,913
Fx rate protection scheme (buffer account)	305	263
Corporate loans	611	650
Total	**14,173**	**19,689**

An analysis of impaired forborne loan portfolio by loan types as 31 December 2018 and 2017

Loan type	31 December 2018	31 December 2017
Individual loans	13,562	17,986
Fx rate protection scheme (original loan)	3,430	3,902
Fx rate protection scheme (buffer account)	305	263
Corporate loans	611	650
Total	**14,173**	**18,636**

See the summary of Fx rate protection scheme in 2.9 note.

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

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

** the table shows just the multiple-forborne loans*

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

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

** the table shows just the multiple-forborne loans*

An analysis of forborne loan portfolio by type of forbearance as 31 December 2018 and 31 December 2017

	31 December 2018		31 December 2017	
	capital	allowance	capital	allowance
Retail loans	13,562	2,469	19,039	6,994
bridge loan	7,995	1,669	11,337	4,548
Fx rate protection scheme (original loan)	3,430	467	4,913	1,549
Fx rate protection scheme (buffer account)	305	34	263	125
Fx housing loan converted to HUF	307	99	436	200
other	1,525	199	2,090	572
Corporate loans	611	171	650	158
Total	**14,173**	**2,640**	**19,689**	**7,152**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Changes in impairment of forborne loan portfolio

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

Notes to the Consolidated Financial Statements

40. COLLATERALS AND OTHER MEANS FOR IMPROVING THE LOANS PORTFOLIO

Collaterals for lending risk applied by the Bank:

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

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

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

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

The table below shows the structure of the collaterals in 2018 and 2017:

	31 December 2018	31 December 2017
Mortgage	837,126	883,648
Bail	16,392	16,467
Guarantee	7,447	7,083
Other collaterals	1,938	1,938
Total	**862,903**	**909,136**

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

Among the collaterals the value of mortgage represents the collateral value allocated to the mortgage at disbursement (market value less discount factor) in case of Customer loans. In case of refinanced mortgage loans, mortgage is the lower of the collateral value or the receivable. All other items are valued at their own value (for example the assignment is valued at the amount which was assigned). The category of other collaterals contains the insurances.

All figures in tables are in HUF million except otherwise noted

41. MARKET RISK

Due to the nature of its business as a mortgage bank and to the special legal regulation relating to it, Takarék Mortgage Bank Plc. has distinctive assets and liabilities structure within the Hungarian banking system as the significant part of the Bank's and its subsidiary's assets and liabilities are long-term and raise most of its funds in the capital market.
Both of the Banks maintain low the maturity-, interest rate- and foreign exchange rate risk derive from the asset, liability and off balance sheet commitments.

42. 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 Takarék Mortgage Bank Plc. and Takarék Commercial Bank Ltd. assess interest rate risk on a continuous basis with the help of Gap-analysis, VaR calculations and sensitivity analysis. The Banks manage market risk mainly by natural hedging. In addition, active management tools such as repurchase of mortgage bonds, swap transactions as well as issued bonds maturities and interest rates suited to assets are also involved in order to ensure the harmony between assets and liabilities.

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

	31 December 2018		31 December 2017	
	Average net A/L	Average interest rate %	Average net A/L	Average interest rate %
Interest earning assets				
Dues from banks and Balances with the National Bank of Hungary	43,239	1.17	109,772	1.09
Securities at fair value through profit or loss and at fair value through other comprehensive income	32,513	1.53	38,688	3.42
Refinanced mortgage loans	91,842	2.60	58,933	4.64
Loans and advances to customers at amortised cost and fair value	315,331	5.24	275,118	6.36
Total interest earning assets	**482,925**	**4.12**	**482,512**	**4.71**
Interest bearing liabilities				
Due to banks	34,505	0.14	25,940	0.09
Deposits	278,384	0.16	298,607	0.33
Issued securities and Financial liabilities at fair value through profit or loss, except derivatives	189,307	3.57	175,472	4.47
Other loan	-	-	4	-
Total interest bearing liabilities	**502,196**	**1.44**	**500,022**	**1.77**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

	Sensitivity of interest income 2018	Sensitivity of equity (2018)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	4	0.87	0.87	(7.65)	5.88	(0.03)
EUR	(0.7)	-	(0.02)	(0.04)	-	(0.06)
CHF	0.02	0.01	-	-	-	0.01

	Sensitivity of interest income 2017	Sensitivity of equity (2017)				
		0-6 months	6-12 months	1-5 years	Over 5 years	Total
HUF	21.2	(3.8)	(2.8)	(18.5)	11.4	(13.7)
EUR	2	0.3	0.6	(3.1)	(3.7)	(5.9)
CHF	-	-	-	-	-	-

	Sensitivity of interest income 2018 +10 bp	Sensitivity of interest income 2018 +25 bp	Sensitivity of equity (2018) +10 bp	Sensitivity of equity (2018) +25bp
HUF	40	100	(0.25)	(0.63)
EUR	(7)	(17.5)	(0.67)	(1.67)
CHF	0.2	0.5	0.17	0.42

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 2018 net interest income would increase by HUF 4 million in case of HUF, it would increase by HUF 0.7 million in case of EUR and would increase by HUF 0.02 million in case of CHF.
Sensitivity of equity means the re-valuation of all financial assets and liabilities and off-balance sheet positions based on tenors of maturity and/or repricing. Full-fledged sensitivity of shareholders' equity is based on the presumption that the yield curve moves in parallel, while analysis by maturity groups highlights sensitivity in each tenor segment. The net impact of such moves would cause the decrease of the capital by HUF 0.03 million in HUF, the decrease by HUF 0.07 million in EUR, the increase by HUF 0.02 million in CHF.

Notes to the Consolidated Financial Statements

43. EXCHANGE RATE RISK MANAGEMENT

The Mortgage Bank is a specialized credit institution, which narrows the scope of business where exchange rate-related risks may arise. Moreover, the business policy of the Banks is to keep exchange rate risk at a low level.
The Banks strive to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

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

FX	Effect on earning before income tax (31 December 2018)	Effect on capital (31 December 2018)	Effect on earning before income tax (31 December 2017)	Effect on capital (31 December 2017)
EUR	3.47	3.16	276.5	282.8
CHF	0.03	0.03	4.5	5.0

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

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax could increase with 3.47 million HUF, in case of CHF items it could increase with 0.03 million HUF. The similar effect for the capital could mean an increase of 3.16 million in case of EUR items and 0.03 million HUF increase in case of CHF items. (The sensitivity of the equity means the re-evaluation of the all-currency financial assets and the off-balance sheet positions.)

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

Consolidated FX financial position of the group in terms of main currencies (31 December 2017):

31 December 2017	CHF	EUR	HUF	Total
Total assets incl. derivatives	**1,852**	**80,095**	**566,032**	**647,979**
Total liabilities incl. derivatives	**1,808**	**80,366**	**565,738**	**647,912**
Shareholders' equity	**-**	**-**	**50,332**	**50,332**
Position	(44)	271	(294)	(67)

44. PREPAYMENT RISK

Prepayment risk means the potential risk that the Bank may suffer losses when clients and refinancing partners partially or entirely repay their outstanding mortgage loans or refinanced loans respectively before the due date in the loan agreement.

The impact of prepayment risk on both assets and liabilities is presented in the statement.

The following method was applied to quantify the effect on net interest income:

An annual prepayment rate (annualized in the course of the year) was determined on the basis of actual amounts prepaid and gross average receivables from outstanding loans. Then interest income was netted of internal settlement interest (i.e. of cost of financing). The resulting net interest income was geared to the amount of outstanding loans for the year and this resulted in the average interest margin on loans for the year. The series of average loans, average prepayment rate and average net interest margin for the period shows the projected effect of prepayments on net interest income. Thus the prepayment risk shows the effect to which extent the interest income decreases because of prepaid (therefore missing) loan capital.

The following method was applied to quantify the effect on shareholders' equity:

The effect on net interest income was adjusted by the actual income from prepaid fees for the period, since those partially compensate the decreasing profit due to the missing net interest income and the decreasing shareholders' equity. The effect on corporate income tax was disregarded.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Prepayment risk of the Bank:

	Effect on net interest income	Effect on equity	Effect on net interest income	Effect on equity
	31.12.2018	31.12.2018	31.12.2017	31.12.2017
	HUF million	HUF million	HUF million	HUF million
Loans	**(384)**	**(279)**	**(388)**	**(274)**
HUF	(386)	(282)	(390)	(278)
EUR	2	3	2	4
CHF	-	-	-	-
Refinanced mortgage loans	**(1)**	**9**	**(3)**	**120**
HUF	(1)	9	(3)	113
EUR	-	-	-	7
CHF	-	-	-	-
Total	**(385)**	**(270)**	**(391)**	**(154)**

45. LIQUIDITY AND MATURITY RISK

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

The Banks prepare their liquidity plans and financing position based on different scenarios, also including effects coming from stress tests. The Banks maintain a high level of liquid asset portfolio consisting of mainly government securities. Being a member of the joint and several responsibility system of the Integration strengthens the liquidity position of the members.

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

Notes to the Consolidated Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2018

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	4,029	135,106	331	11,452	5,741	-	156,659
Deposits	198,505	84,230	20,615	983	-	-	304,333
Derivative financial liabilities	-	115	28	664	1,564	-	2,371
Issued securities	-	637	26,707	149,087	60,156	-	236,587
Financial liabilities at fair value through profit or loss, except derivatives	-	259	-	6,434	-	-	6,693
Off balance sheet commitments	3,169	3,667	38,306	59,393	271	53	104,859
Total banking liabilities	**205,703**	**224,014**	**85,987**	**228,013**	**67,732**	**53**	**811,502**

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Contractual maturities of undiscounted cash flows of financial liabilities as of 31 December 2017

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	4,544	237	4,185	8,123	16,740	-	33,829
Deposits	166,725	117,159	39,658	5,768	-	-	329,310
Derivative financial liabilities	-	268	-	562	248	-	1,078
Issued securities	-	3,781	31,149	151,336	670	-	186,936
Financial liabilities at fair value through profit or loss, except derivatives	-	281	-	7,016	-	-	7,297
Off balance sheet commitments	-	19,528	34,568	29,448	38	-	83,582
Total banking liabilities	**171,269**	**141,254**	**109,560**	**202,253**	**17,696**	**-**	**642,032**

	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Receivables from derivatives	-	710	2,226	4,974	3,194	103	11,207
Liabilities from derivatives	-	555	2,425	5,111	2,478	75	10,644
Net value of derivatives	**-**	**155**	**(199)**	**(137)**	**716**	**28**	**563**

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

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

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

Maturity analysis of assets and liabilities as of 31 December 2018

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

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

Maturity analysis of assets and liabilities as of 31 December 2017

	Less than 12 months	Over 12 months
Assets		
Cash on hand	3,135	-
Balances with the National Bank of Hungary	33,165	-
Due from banks	20,691	28,106
Securities at fair value through profit or loss	8,994	37,657
Securities at fair value through other comprehensive income	33,241	46,957
Derivative financial assets	132	278
Refinanced mortgage loans	8,324	68,273
Loans and advances to customers	73,376	237,256
Tangible assets	-	2,847
Goodwill and other intangible assets	-	1,128
Deferred tax assets	-	811
Other assets	6,206	-
Total assets	**187,264**	**423,313**

All figures in tables are in HUF million except otherwise noted

	Less than 12 months	Over 12 months
Liabilities		
Due to banks	9,120	24,863
Deposits from customers	323,485	5,768
Derivative financial liabilities	268	810
Issued securities	24,941	152,006
Financial liabilities at fair value through profit or loss, except derivatives	-	7,016
Current tax liabilities	21	-
Provisions	6,251	-
Other liabilities	5,696	-
Total liabilities	**369,782**	**190,463**

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

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

	31 December 2018	31 December 2017
LCR (liquidity coverage ratio)	192.52%	299.08%
NSFR (net stable funding ratio)	117.39%	129.81%

46. MANAGEMENT OF OPERATIONAL RISK

Operational risk is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Bank through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment. The Bank's management considers feedback to be particularly important in terms of operations-related risk management, as this is the tool to check the effectiveness of measures taken to eliminate risks.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

47. TREATMENT OF RISK CONCENTRATION

The Banks are significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate and also by diversifying their product portfolio from collateral perspective (meaning to increase the proportion of other than real estate securities). Taking risk in corporate segment can do in compliance with the sectoral limits.

48. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

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

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

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

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

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

	31 December 2018	31 December 2017
Own Funds	233,499	230,782
TIER 1 Capital	233,499	230,782
Common Equity TIER 1 Capital	233,499	230,782

	31 December 2018	31 December 2017
ROAE (return on average equity %)	6.3	(15.2)

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

49. RELATED PARTY TRANSACTIONS

For the purpose of the financial statements, Group identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10% (from 14.10.2016. Fókusz Takarékszövetkezet, and from 09.12.2016. MTB Magyar Takarékszövetkezeti Bank Zrt. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions.

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

The list of the related parties, -including the subsidiaries and joint ventures (joint control with Hungarian Post Ltd.) and associates of the Takarekbank as at 31 December 2018 is the following:

Companies included in the consolidation*	Main shareholder***	Core business
Takarék Commercial Bank Ltd.	Takarék Mortgage Bank Plc 51%	Credit institution
Takarék Real Estate Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Real estate valuation services, real estate agency and sales
Takarék INVEST Befektetési és Ingatlankezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Own property management, leasing, and operating , facility management
Diófa Alapkezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 88.29%	Fund and property management
Takarék Lízing Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 100%	Lending and leasing
Central European Credit d.d. (Croatia)	Takarék Lízing Ltd. 100%	Lending
Diófa Ingatlankezelő Ltd.	Diófa Alapkezelő Ltd. Ltd. 100%	Real estate management
Kary-villa Real Estate Investment Ltd.	Takarék Real Estate Ltd. 100%	Sale of own properties
Díjbeszedő Faktorház Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 51%	Purchasing, handling and collection receivables of retail customers
Díjbeszedő Informatikai Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 50%, Díjbeszedő Holding Ltd. 50%	Providing IT services primarily to the members of Díjbeszedő Group
Magyar Posta Kártyaközpont Ltd.	Díjbeszedő Holding Ltd. 50.05%	Providing services related to bank cards, and electronic payment systems

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Companies included in the consolidation*	Main shareholder***	Core business
DÍJNET Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 51%	Providing electronic bill payment services
Mohácsi Takarékbank Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt.100%	Credit institution
Pannon Takarék Bank Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 83.09%	Credit institution
Magyar Posta Befektetési Szolgáltató Ltd.	Takarék INVEST Befektetési és Ingatlankezelő Ltd. 50%, Magyar Posta Ltd. 50%	Selling investment products
MTB Magyar Takarékszövetkezeti Bank Zrt.	Magyar Takarék Befektetési és Vagyongazdálkodási Ltd. 56.57%	Credit institution, the central bank of the integration of Savings Cooperatives
Takarék Faktorház Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 100%	Providing full factoring services
Takarékszövetkezeti Informatikai Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 52.38% SZHISZ** 47.62%	The leading IT service provider of the integration of Savings Cooperatives – as outsourced activity – primarily provides IT system operation and system integration services in the field of banking IT
Tak-Invest Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 87.90%	IT service provider
Takarék Központi Követeléskezelő Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 97.49%	Debt collection, debt recovery, intermediation of financial services
TKK Ingatlan Ltd.	Takarék Központi Követeléskezelő Ltd. 100%	Sale of properties
MA-TAK-EL Magyar Takarék Ellátó Ltd.	MTB Magyar Takarékszövetkezeti Bank Zrt. 59.09% and Magyar Takarék Befektetési és Vagyongazdálkodási Ltd. 40.91%	Providing bank security, facility management and other operating services excluding IT services
DBH Investment Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 99.5%	Fund and property management
Takarékinfo Központi Adatfeldolgozó Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 13,91 %-ban, Takarék INVEST Befektetési és Ingatlankezelő Kft. 13,91 %-ban, SZHISZ 20,00%-ban	data processing, web-hosting service

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Companies included in the consolidation*	Main shareholder***	Core business
MPT Security Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 40,00 %-ban, Takarék INVEST Befektetési és Ingatlankezelő Kft. 10,00 %-ban	securitiy service
MPTO Magyar Posta Takarék Oktatási Szolgáltató Zrt.	MTB Magyar Takarékszövetkezeti Bank Zrt. 40,00 %-ban, Takarékinfo Központi Adatfeldolgozó Zrt. 10,00 %-ban	teaching

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

***** "SZHISZ" = Integration of Savings Cooperatives***

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

Controlled companies of MTB and Integration of Savings Cooperatives (SZHISZ), without the ownership of Takarék Mortgage Bank, where MTB and SZHISZ have significant influence:

Companies included in the consolidation*	Shareholder	Core business
3A Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
B3 TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Békés Takarék Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Bóly és Vidéke Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
CENTRÁL TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Dél TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Fókusz Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Hungária Takarék Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
Kinizsi Bank Ltd.	owners outside the scope of consolidation	Savings Cooperative
Korona TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
M7 TAKARÉK Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Nyugat Takarék Szövetkezet	owners outside the scope of consolidation	Savings Cooperative
Pátria Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative
TISZÁNTÚLI TAKARÉK Takarékszövetkezet	owners outside the scope of consolidation	Savings Cooperative

**** From the point of view of MTB Magyar Takarékszövetkezeti Bank Zrt., as parent company of Takarék Group.***

	31 December 2018	31 December 2017
Loans to executives, members of the Board of Directors and Supervisory Board	-	-
Gross remuneration		
Salary	39	19
Bonus	7	-
Honorarium	28	29
Total remuneration	**74**	**48**

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transaction in 2018 and 2017 between the Group and other related parties are disclosed on the next page.

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

Details of transactions as of 31 December 2018

	Parent	Associates and joint ventures	Key management
Due from banks	60,066	-	-
Loans and advances to customers at amortised cost	-	17,789	2
Other assets	77	14	-
Total assets	**60,143**	**17,803**	**2**
Due to banks	134,068	4,000	-
Deposits from customers	-	11,496	-
Other liabilities	-	56	-
Total liabilities	**134,068**	**15,552**	**-**
Interest income	922	275	-
Interest expense	(1,148)	(12)	-
Net interest income	**(226)**	**263**	**-**
Fee and commission income	4	78	-
Fee and commission expense	(218)	(582)	-
Net fee and commission income	**(214)**	**(504)**	**-**
Other operating income	1,124	54	-
Other operating expense	-	-	-
Operating income	**684**	**(186)**	**-**
Operating expense	(1,105)	(5,892)	(74)
Profit/loss on transactions with related parties	**(421)**	**(6,078)**	**(74)**

Details of transactions as of 31 December 2017

	Parent	Associates and joint ventures	Key management
Due from banks	45,569	-	-
Loans and advances to customers	-	-	1
Other assets	179	156	-
Total assets	**45,748**	**156**	**1**
Due to banks	-	4,000	-
Deposits from customers	-	73	21
Other liabilities	178	55	-
Total liabilities	**178**	**4,128**	**21**
Interest income	336	-	-
Interest expense	(337)	-	-
Net interest income	**(1)**	**0**	**0**
Fee and commission income	73	3	-
Fee and commission expense	(74)	(6)	-
Net fee and commission income	**(1)**	**(3)**	**0**
Other operating income	145	291	-
Other operating expense	-	(763)	-
Operating income	**143**	**(475)**	**0**
Operating expense	(1)	(439)	(48)
Profit/loss on transactions with related parties	**142**	**(914)**	**(48)**

All figures in tables are in HUF million except otherwise noted

50. NET GAINS

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

2018	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans and advances to customers at amortised cost and at fair value	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	1,238	1,736	20,756	-	-	-	23,730
Interest expense	-	-	-	(2,026)	(7,013)	-	(9,039)
Net interest income	**1,238**	**1,736**	**20,756**	**(2,026)**	**(7,013)**	**-**	**14,691**
Fee and commission income	-	-	3,786	-	3,713	692	8,191
Fee and commission expense	-	-	(2,450)	-	(235)	(464)	(3,149)
Net fee and commission income	**-**	**-**	**1,336**	**-**	**3,478**	**228**	**5,042**
Change in fair value of derivatives	2,418	-	-	585	-	-	3,003
Gains from securities	-	(1,238)	-	48	1,544	1,493	1,847
Other operating income	-	-	-	-	-	5,373	5,373
Other operating expense	-	-	-	-	-	(5,740)	(5,740)
Operating income	**3,656**	**498**	**22,092**	**(1,393)**	**(1,991)**	**(1,354)**	**24,216**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

2017	Financial assets at fair value through profit or loss	Financial assets available-for-sale	Loans and advances	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Not linked to financial instruments	Total
Interest income	1,245	857	20,582	-	-	-	22,684
Interest expense	-	-	-	(1,205)	(8,634)	-	(9,839)
Net interest income	**1,245**	**857**	**20,582**	**(1,205)**	**(8,634)**	**-**	**12,845**
Fee and commission income	-	-	3,118	-	3,888	805	7,811
Fee and commission expense	-	-	(1,380)	-	(593)	(263)	(2,236)
Net fee and commission income	**-**	**-**	**1,738**	**-**	**3,295**	**542**	**5,575**
Change in fair value of derivatives	(500)	-	-	585	-	-	85
Gains from securities	72	47	-	232	5,856	(4,817)	1,390
Other operating income	-	-	-	-	-	1,090	1,090
Other operating expense	-	-	-	-	-	(11,528)	(11,528)
Operating income	**817**	**904**	**22,320**	**(388)**	**517**	**(14,713)**	**9,457**

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

51. SEGMENT REPORTING BY BUSINESS SEGMENTS

The Group distinguishes business segments according to the organizational structure of the company. The profitability of the company is presented based on this structure. The segments have separable and assignable income, expense, assets and liabilities.
The reportable segments of the Group on the base of IFRS 8 are the following:

- **Retail:** the Bank provides a wide range of services to its retail customers (retail bank accounts, deposits, savings, loans) through the branch network and with the collaboration of the Hungarian Post. Retail bank accounts, deposits, savings, loans of the Takarék Mortgage Bank continue to be included as part of the retail segment.
- **Corporate:** the Bank is trying to satisfy not only the retail but the corporate customers' financial needs providing corporate accounts, deposits, loans in different type, size with different collaterals, guarantees.
- **Investment services:** the Bank also has provided investment services to retail and corporate clients. Since 18 December 2017, Takarék Group has provided investment services as an agent of the MTB Magyar Takarékszövetkezeti Bank Zrt.
- **Treasury:** the segment's responsiblities include liquidity management, asset and liability management, and security issue on behalf of the Takarék Mortgage Bank.
- **Refinancing:** refinancing mortgage loans to Takarék Commercial Bank and other partner institutions
- **Other:** the Bank's core business is supported by subsidiary, which profitability's is reported in this category.

In December 2017, the Bank has sold the subsidiaries – exception of Magyar Kártyaszolgáltató Ltd. – to the MTB Magyar Takarékszövetkezeti Bank Zrt.

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

All figures in tables are in HUF million except otherwise noted

Segment report, 31 December 2017	Retail	Corporate	Investment services	Treasury	Refinancing	Other	Total
Net interest income	10,999	1,669	348	(2,039)	1,872	(4)	12,845
Other net income	(946)	690	157	1,748	(182)	(4,217)	(2,750)
Provision for impairment on loan losses	(1,445)	(264)	-	-	75	-	(1,634)
Direct expense	(13,712)	(1,979)	(1,125)	(449)	(758)	240	(17,783)
Operating result	(5,104)	116	(620)	(740)	1,007	(3,981)	(9,322)
Profit before tax	-	-	-	-	-	-	(9,322)
Segment assets	189,810	120,822	-	198,319	87,499	14,127	610,577
Segment liabilities and equity	168,189	161,064	-	35,061	183,964	62,299	610,577

52. IMPACTS OF IMPLEMENTATION OF IFRS 9 AS 1 JANUARY 2018

The Bank Group has been preparing for the transition to IFRS 9 since 2016, whereby those subject matters has been identified which may cause significant differences compared to the approach of IAS 39. These subject matters are the following: classification of financial assets, business model tests, modelling techniques for impairment based on expected credit losses, and for incorporating forward-looking information, the evaluation of financial assets on which the credit risk has increased significantly since initial recognition, and the approach to hedge accounting. The scheduling of IFRS 9 transition and adequate test runs facilitate the Bank Group to be able switch to IFRS based bookkeeping on 01. January 2018 and be able to provide high quality IFRS 9 information after the transition.

<u>Classification of financial assets and business models</u>

The Bank Group will apply the exemption provided by IFRS 9 Chapter 7 which allows to accomplishing SPPI and business model test with the consideration of facts and circumstances that exist at the date of transition, therefore on 01. January 2018. With the involvement of consultants the Bank Group reviewed the classification requirements of IFRS 9 related to SPPI and business model tests.
The entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.
The entity needs to classify a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement (where the interest is the consideration for the time value of money, credit risk associated with holding the financial asset for a particular period of time, basic lending risks and costs, and it can include the profit margin).
As a combined result of these tests, examined to which category should the financial assets be classified. The Bank Group performed this analysis for those financial assets which are not anticipated to be derecognised until the IFRS 9 transition. The whole portfolio was divided to homogenous parts along to

All figures in tables are in HUF million except otherwise noted

relevant classification requirements of IFRS 9 to enhance the efficiency of the analysis. Based on the facts and circumstances existed on the date of analysis the Bank Group divided its portfolio and examined which business model is prevailing for different sub portfolios. As a result of the preliminary classification analysis the Bank Group gained a comprehensive view from those financial instruments which are differently treated under IFRS 9 than under IAS 39. Based on IAS 39 the Bank examined the loans and receivables, financial assets at fair value through profit or loss, financial assets available-for-sale, and after preparing the two tests mentioned above, the Bank splits these assets into four categories. The four categories are followings: financial assets measured at amortised cost (“amortised cost”), financial assets measured at fair value through profit or loss (“FVPL”) debt instrument financial assets measured at fair value through other comprehensive income (“FVOCI (debt instruments)”); equity instrument financial assets measured at fair value through other comprehensive income (“FVOCI (equity instruments)”). Adopting the IFRS 9 has no significant effect on determining the effective interest rate and the amount effective interest.

Modelling techniques for impairment based on expected credit losses, and for incorporating forward-looking information

The Bank Group reviewed the IFRS 9 specific requirements for impairment and the main differences compared to IAS 39. The aim of the Bank Group is to use all reasonable and acceptable information which is relevant for individually and collectively measured exposures and essential for performing IFRS 9 implementation reasonably and consistently. The Bank Group performed those segmentations on existing portfolio which facilitate the application of impairment requirements, and specified those risk management related definitions which are not exhaustively defined under IFRS. The Bank Group has changed the methodology for individual and collective loss allowances and the implementation of expected credit loss model. The forward-looking information has an important role in the process of evolving impairment models. The Bank Group is examining the feasibility of implementation of multi-scenario impairment methodology required by IFRS 9. The Bank Group examined the IFRS 9 staging requirements and determined those indicators which facilitate to assess whether credit risk has increased significantly since initial recognition or whether the financial asset becomes credit impaired.

a) Classification of financial assets and liabilities from IAS 39 to IFRS 9 (see in Notes 13)

b) Reconciliation of carrying amounts of financial assets and liabilities from IAS 39 to IFRS 9 (see in Notes 13)

c) Reconciliation of impairment loss

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassi-fication	Remeasu-rement	Loan loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash on hand	-	-	15	15
Balances with the National Bank of Hungary	-	-	4	4
Due from banks	-	-	12	12
Refinanced mortgage loans	-	-	1	1
Loans and advances to customers	16,591	(1)	1,160	17,750
Total	**16,591**	**(1)**	**1,192**	**17,782**
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Financial assets available-for-sale	-	-	17	17
Loan commitments				
Provisions (loan commitments)	674	-	161	835
Total	**674**	**-**	**178**	**852**

All figures in tables are in HUF million except otherwise noted

Assets to be measured at Amortised cost – 01 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Gross carrying value per asset type					
Cash on hand	3,135	-	-	-	**3,135**
Balances with the National Bank of Hungary	33,165	-	-	-	**33,165**
Due from banks	48,796	-	-	-	**48,796**
Securities at fair value through other comprehensive income	113,683	-	-	-	**113,683**
Investment securities	682	-	-	-	**682**
Refinanced mortgage loans	76,597	-	-	-	**76,597**
Retail mortgage loans	160,315	2,033	21,367	312	**184,027**
Retail other loans	12,840	106	3,153	24	**16,123**
Corporate mortgage loans	46,290	-	1,676	-	**47,966**
Corporate other loans	78,460	34	402	-	**78,896**
Receivables from customers	547	-	-	-	**547**
Total gross carrying value	**574,510**	**2,173**	**26,598**	**336**	**603,617**
Impairment loss under IFRS 9 per asset type					
Cash on hand	15	-	-	-	**15**
Balances with the National Bank of Hungary	4	-	-	-	**4**
Due from banks	12	-	-	-	**12**
Securities at fair value through other comprehensive income	10	-	-	-	**10**
Investment securities	6	-	-	-	**6**
Refinanced mortgage loans	1	-	-	-	**1**
Retail mortgage loans	492	318	11,211	89	**12,110**
Retail other loans	47	20	2,935	22	**3,024**
Corporate mortgage loans	704	-	1,178	-	**1,882**
Corporate other loans	600	-	134	-	**734**
Receivables from customers	2	-	-	-	**2**
Total loss allowance under IFRS 9	**1,893**	**338**	**15,458**	**111**	**17,800**

All figures in tables are in HUF million except otherwise noted

53. IMPACTS OF IMPLEMENTATION OF IFRS 16

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019 and will supersede the current lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.
The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessees, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. In contrast to a lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
The date of initial application of IFRS 16 for the Bank will be 1 January 2019.
The Bank has chosen the modified retrospective application (cumulative catch-up approach) of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Bank will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to equity (retained earnings) at the date of the initial application.

Impact of the new definition of a lease

IFRS 16 provides a new definition of a lease. The essential element differentiating the definition of a lease under IAS 17 and under IFRS 16 is the concept of control. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation. Control is considered to exist if the customer has:

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

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

In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Bank.

Impact on lessee accounting

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lesses's lease agreements except for short-term leases and low asset value leases which are subject to exemptions.
On initial application of IFRS 16, for leases previously classified as operating leases (except as noted below), the Bank will recognise right-of-use assets and lease liabilities in the consolidated statement of financial position. The paragraphs below explain the measurement methods that will be applied to those leases.

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

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

On initial application of IFRS 16, the right-of-use asset, will be initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

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

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

Subsequently, the Bank will:
(a) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
(b) Not to separate the total amount of cash paid into a principal portion and interest in the cash flow statement/consolidated cash flow statement.

No changes in accounting will be made in case of operating leases which as at 1 January 2019 will have the remaining lease period of 12 months or less, and leases of low-value assets (such as personal computers and office furniture. In those cases, the Bank opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

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

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

All figures in tables are in HUF million except otherwise noted

Notes to the Consolidated Financial Statements

The Bank will recognise a right-of-use asset of HUF 1,263 million and a corresponding lease liability of HUF 1,278 million in respect of all these leases. The estimate impact on profit or loss in 2019 is to decrease rental fees by HUF 736 million, to increase depreciation by HUF 723 million, and to increase interest expense by HUF 12 million.
The Bank has no provision for onerous lease contracts or lease liability incentives as at 31 December 2018 that should be derecognised and considered in measurement of the right-of-use assets and lease liabilities.

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

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

in million HUF	01 January 2019	31 December 2019
Right-of-use asset	1 263	541
Lease liability	1 278	554
Provision for onerous contracts	-	-
Other items	-	-
Cumulative impact recognized as an adjustment to the equity at the date of initial application	(15)	
Expected impact on statement of comprehensive income:	-	1
- Increase of depreciation	-	(723)
- Increase of interest expense	-	(12)
- Decrease of rental fee	-	736
Expected impact on statement of cash flows:	-	0
- Increase of net cash-flow from operating activities	-	735
- Decrease of net cash-flow from financing activities	-	(735)

The summary data presented in this section is based on the Bank's best estimate. Due to the 2019 interim methodological clarifications, we do not exclude the possibility of changing the estimate in the 2019 Consolidated Financial Statements. In this case, this fact will be presented in the 2019 Consolidated Financial Statements.

Estimated impact on financial ratios, bank covenants and other arrangements

Adopting IFRS 16 will not have material impact on financial ratios, bank covenants and other arrangements.

54. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

The National Bank of Hungary terminated its covered bond purchasing program from January 2019.
The National Bank of Hungary announced in September 2018, that it would cease to buy covered bonds on the secondary market from October 2018, and that it would not continue to purchase covered bonds on the primary market auctions any more. (The MNB Monetary Council decided to launch a mortgage bond purchase program on 21 November 2017, within the framework of which it purchased fixed interest rate covered bonds with three years or more maturity on the primary issue auctions and also on the secondary market).

On 14 February 2019, the General Assembly decided to change of name of the Magyar Takarékszövetkezeti Bank Ltd.. This is foreseen from 1. April 2019. Based on the decision of the Board of Directors, the new name will be MTB Bank of Hungarian Savings Cooperatives Co. Ltd.

TAKERÉK MORTGAGE BANK PLC.

CONSOLIDATED BUSINESS REPORT FOR 2018 ACCORDING TO IFRS

Budapest, April 2, 2019

TABLE OF CONTENTS

1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

1.1 TAKARÉK MORTGAGE BANK PLC.

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

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

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

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

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

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

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

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

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

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

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

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

On June 27, 2017 the General Assembly of MTB accepted the 2017-2021 strategy of the Integration. According to that, the function of the central financial body of Takarék Group will be solely performed by MTB; hence the Bank's group management functions were passed over to MTB. According to the plans, the satellite institutions of the Integration, including mutual fund management, factoring and leasing service suppliers became directly subordinated to the MTB.

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

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

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

The general assembly of the Company on April 27, 2018 made a decision over the changing of the name of the Bank. It is from June 25, 2018 that Takarék Mortgage Bank Plc. as the Company's name. In the revised for the 2019-2023 period 5-year strategy of the Takarék Group (accepted on November 30, 2018 by MTB's general meeting) the Bank's principal role remained unchanged: it solely performs classic mortgage bank activities.

1.2 TAKARÉK COMMERCIAL BANK LTD.

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

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

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

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

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

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

2 THE MACROECONOMIC ENVIRONMENT IN 2018

2.1 THE HUNGARIAN ECONOMY IN 2018[1]

Indicator	2016	2017	2018
Real GDP growth	2.3%	4.1%	4.9%
Industrial output growth	0.9%	4.9%	3.6%
Average annual rate of inflation	0.4%	2.3%	2.8%
Average annual rate of unemployment	5.1%	4.2%	3.7%
ESA-based budget balance (relative to GDP)*	-1.9%	-2.2%	-2.0%
Net external financing capacity (relative to GDP)*	6.2%	5.8%	4.1%
Base rate (end-of-year)	0.90%	0.90%	0.90%
EUR-HUF exchange rate (end-of-year)	311.02	310.14	321.51

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

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

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

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

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

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

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

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

2.2 THE BANKING SECTOR IN 2018[2]

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

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

The share of client deposits within total liabilities rose to 57% in 2018, its volume reached HUF 22,400 billion. 38% of this stock was owned by households, whereas 38.6% by the non-financial corporate sector.

2.2.1 Household mortgage loans

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

2.2.2 The market of mortgage bonds

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

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

3 REPORT ON THE BUSINESS ACTIVITIES

3.1 MAJOR FINANCIAL INDICATORS

HUF billion	31/12/2017	31/12/2018	Change
Balance sheet total	610.6	754.5	23.6%
Gross value of loans and refinancing mortgage loans	403.8	490.5	21.5%
Mortgage bonds issued	174.9	215.1	22.9%
Bonds issued	9.0	6.0	-33.5%
Deposits	329.3	304.3	-7.6%
Shareholders' equity	50.3	55.2	9.7%
Solvency capital	230.8	233.5	1.2%
Profit/Loss before tax	-9.3	6.7	-
Profit/Loss after tax w/o the effect of discontinued operation	-11.2	6.6	-
Average net interest margin (NIM, %)	2.13%	2.15%	0.02%-pt
Cost/income ratio w/o other results (CIR, %)	86.6%	74.5%	-12.1%-pt
EPS (HUF)	-40.7	61.4	-
ROAA (return on average assets, %)	-1.4%	1.0%	2.4%-pt
ROAA excluding special banking tax (%)	-1.7%	1.0%	2.7%-pt
ROAE (return on average equity, %)	-15.2%	12.2%	27.4%-pt
ROAE excluding special banking tax (%)	-19.5%	12.8%	32.3%-pt

The Bank's consolidated balance sheet total calculated according to International Financial Reporting Standards (IFRS) was HUF 754.5 billion as of 31 December 2018, which was 23.6% (HUF 143.9 billion) higher than a year before. In the course of the past year growth in total assets was primarily driven by the growth in the volume of refinanced mortgage loans, while on the liability side the strongest contribution came from interbank deposits.

The net stock of loans was up by HUF 90.7 billion or 23.4% under one year (the growth rate of refinanced loans was 37.5%). On the liability side the marked HUF 122.7 billion increase in interbank deposits was augmented by HUF 40.2 billion increase in the stock of issued mortgage bonds.

The Bank's consolidated profit in 2018 was HUF 6.6 billion; net interest income amounted to HUF 14.7 billion. Net interest margin on average assets was 2.15%, 2 basis points higher than in 2017. The Bank's cost to income ratio excluding net other income was 74.5% in 2018, significantly down from 86.6% back in 2017.

3.2 LENDING

The volume of gross loans extended by the Bank amounted to HUF 385.2 billion as of 31 December 2018. Year-on-year growth was 17.7 %, mostly due to dynamically expanding new disbursements, which more than counterbalanced contractual instalments on earlier extended loans.

Household loans continued to dominate the loan portfolio, even though its share fell to 55.3% by the end of 2018 from 59.4% at end-2017. Changes in the composition of the loan portfolio resulted from a HUF 37.1 billion (27.9%) increase in corporate loans, whereas the stock of retail loans increased by only HUF 15.2 billion (7.8%).

The composition of the loan portfolio as of December 31, 2018:

HUF million	December 31, 2017	December 31, 2018	Change
Retail loans	**191,707**	**209,684**	**9.38%**
Housing loans	113,034	130,261	15.24%
Other mortgage loans	66,584	65,438	-1.72%
Consumer and other loans	10,330	13,062	26.45%
Loans to employees	1,159	923	-20.36%
Corporate loans	**132,731**	**169,805**	**27.93%**
Total own loans (gross)	**323,838**	**379,489**	**17.18%**
Derecognition	-1,300	-336	-74.15%
Accrued interest	4,773	5,206	9.07%
Revaluation to fair value	28	240	757.14%
Value adjustment after depreciation	-115	610	-
Total gross loans	**327,224**	**385,209**	**17.72%**
Impairment	-16,592	-12,615	-23.97%
Loans, net	**310,632**	**372,594**	**19.95%**
Refinanced loans	76,597	105,296	37.47%

In the course of 2018 new loan disbursements amounted to HUF 47.8 billion in the retail and HUF 52.4 billion in the corporate segment, the latter is 27% higher than in 2017. Among corporate loans the disbursement of fixed purpose loans was outstanding: during the year it amounted to HUF 51.4 billion, which exceeds that of the last year by 33.9%. The most significant retail loan products were home equity loans and personal loans; disbursements during the year reached HUF 32.9 billion and HUF 4.9 billion respectively. During 2018 the volume of newly disbursed home equity loans was 47.7% higher than in the preceding year, while in the case of personal loans growth was 62.7%.

On April 20, 2016 the Commercial Bank, as a member of the Consortium for Development of MFB Points with the MTB, the B3 Savings Cooperative and Budapest Bank Ltd. entered into an intermediation contract with the Hungarian Development Bank Ltd. (hereafter referred to as MFB). Under the intermediation contract the Commercial Bank shall participate in the development of the network of MFB Points, and have undertaken to open and operate 3 MFB Points in Budapest and 18 in major cities based on its branch network. Entering into this intermediation contract was a unique opportunity to increase activity on the corporate market; interest-free credit facilities for developments will be widely available for corporates with a plan to expand, and the entire product range of the Commercial Bank shall be available to supplement the necessary funds.

3.3 REFINANCING

By 31 December 2018 the consolidated volume of refinanced loans increased by HUF 28.7 billion (i.e. by 37.5%) from a year ago and reached HUF 105.3 billion.

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

3.4 CUSTOMER DEPOSITS, BANK ACCOUNT SERVICES

The total volume of deposits decreased by 7.6% in 2018, mostly due to a fall in the volume of corporate deposits. Corporate term deposits decreased by HUF 29.5 billion, which the HUF 8.7 billion growth in sight deposits was unable to offset. The amount of household deposits decreased by HUF 5 billion, shrinking to HUF 124 billion by the end of 2018. Within this the stock of sight deposits was HUF 83.5 billion, which represents 67% of total household deposits.

3.5 INVESTMENT SERVICES

The independent investment services business line of the Commercial Bank was sold to MTB in 2017, resulting in a more concentrated and unified service for the clients of the Takarék Group. Following December 17, 2017, similarly to other cooperative credit institutions within the Integration, the Bank offers investment service products to clients as an agent of MTB. These products include mutual funds, government bonds and stock exchange quoted securities.

3.6 SECURITIES ISSUES

As a result of capital market transactions in 2018 the Bank raised HUF 132.6 billion in new funds, of which HUF 127.8 billion in the form of mortgage bonds, HUF 4.8 billion in the form of uncovered bonds. As a result of capital market transactions of the Takarek Mortgage Bank Plc. on non consolidated level in 2018 the Bank raised HUF 163.4bn in new funds, of which HUF 143.3 billion in the form of mortgage bonds, HUF 20 bn in the form of uncovered bonds.This volume was raised through 16 issuances, of which two took place through quotation and fourteen through auction. In each issuances the entire spectrum of the Bank's dealers were involved. On the course of the transactions five different series of mortgage bonds and one series of uncovered bonds were put into circulation. Only fixed rate mortgage bonds denominated in HUF, with maturities between 5 and 10 years were issued in 2018, while the uncovered bond series had two years of remaining maturity.

Compared to the preceding years not only issuance, but also repurchase activity was stronger in 2018. Altogether HUF 80.5 billion (consolidated data HUF 65.3 billion) of mortgage bonds were repurchased, affecting eight different series. Mostly variable rate papers were repurchased by the Bank, with only one repurchase transaction involving a fixed rate paper in the value of HUF 12 billion.

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

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

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

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

Value of mortgage bonds and assets involved as collateral as of 31 December 2018 (non consolidated data)

HUF million	December 31, 2017	December 31, 2018	Change
Outstanding mortgage bonds in circulation			
Face value	176,693	222,451	25.9%
Interest	20,974	32,607	55.5%
Total	**197,667**	**255,058**	**29.0%**
Value of ordinary collateral			
Principal	198,021	222,731	12.5%
Interest	46,103	46,533	0.9%
Total	**244,124**	**269,264**	**10.3%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	22,865	32,676	42.3%
Mortgage bonds	0.0	3,500	-
Total	**22,865**	**36,176**	**58.2%**

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

The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 116.32%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 143.38% as of December 31, 2018.

4 LIQUIDITY MANAGEMENT

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

In the observed period the funding structure of the Bank was markedly affected by the continued increase of the amount of refinanced loans, as well as the MNB's mortgage bond purchase plan, under which the Bank issued only fixed rate mortgage bonds.

The amount of refinanced loans on a consolidated level increased by HUF 28.7 billion in 2018, which equals to 37.5% growth on annual terms. This was also motivated by the increase in the Mortgage Financing Adequacy Ratio (MFAR) from the previous 15 to the current 20%, which raised the need from partner institutions for refinancing, but the meeting of Takarék Group's own MFAR compliance obligation also enhanced the additional need for mortgage bond coverage. A sizable portion of mortgage bond coverage through refinancing was nevertheless made at variable rates, hence the Bank entered into various interest rate swap deals during the year with a view to cover open interest rate positions.

Developments in the structure of the Bank's liabilities

The consolidated stock of unsecured bonds decreased in 2018, from HUF 8.7 to HUF 5.8 billion, i.e. by 33.3%.

The amount of mortgage bonds increased by 25.7% (HUF 42.7 billion) in the last year. From a face value of 165.8 billion at the end of 2017 the stock reached HUF 208.5 billion by the end of 2018. The dynamic growth of the stock of mortgage bonds is expected to continue in 2019 due to the already announced further rise of the MFAR from 20 to 25%, which increases refinancing needs and mortgage bond issuances to draw the necessary funds.

The volume of net interbank liabilities on a consolidated level increased markedly during the year: from HUF 34 billion at the end of 2017 it rocketed to HUF 156.7 billion by the end of 2018.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

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

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

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

The Bank considers prudent risk management as a vital value.

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

5.2 CREDIT RISK

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

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

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

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

5.3 LIQUIDITY AND MATURITY RISK

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

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

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

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

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

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

5.7 OTHER

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

6 ORGANIZATION CHANGES AND HEADCOUNT

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

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

The average number of employees of the Bank in 2018 was 36 (9 full-time, 25 part-time employees and one pensioner). The rate of fluctuation (calculated as the ratio of the number of employees leaving to the average number of employees within the calendar year) was 69.4%.

7 FINANCIAL ANALYSIS

7.1 BALANCE SHEET STRUCTURE

The Balance sheet has been constructed in accordance with controlling intention, which resulted in a different structure from categories used by accounting.

in HUF million	December 31, 2017	December 31, 2018	Change	Change
Cash on hand	3,135	3,157	0.7%	22
Due from banks & NBH	81,961	63,737	-22.2%	-18,224
Securities at fair value through profit or loss	46,651	0	-100.0%	-46,651
Securities at fair value through other comprehensive income	80,198	192,142	139.6%	111,944
Derivate financial assets	410	3,962	866.3%	3,552
Refinanced mortgage loans	76,597	105,296	37.5%	28,699
Loans and advances to consumers at amortised cost and at fair value	327,224	385,209	17.7%	57,985
Impairment and provision	-16,591	-12,615	-24.0%	3,976
Tangible assets	2,847	2,171	-23.7%	-676
Goodwill and other intangible assets	1,128	388	-65.6%	-740
Deferred tax asset	811	679	-16.2%	-132
Other assets	6,206	10,390	67.4%	4,184
Total assets	**610,577**	**754,516**	**23.6%**	**143,939**
Due to banks	33,983	156,659	361.0%	122,676
Issued securities	183,963	221,082	20.2%	37,119
Mortgage bonds	167,917	208,385	24.1%	40,468
Bonds	9,030	6,004	-33.5%	-3,026
Financial liabilities at fair value through profit or loss, except for derivative	7,016	6,693	-4.6%	-323
Deposits from customers	329,253	304,333	-7.6%	-24,920
Derivative financial liabilities	1,078	2,371	120.0%	1,293
Current tax liability	21	0	-100.0%	-21
Provisions	6,251	3,988	-36.2%	2,263
Other liabilities	5,696	10,847	90.4%	5,151
Total liabilities	**560,245**	**699,280**	**24.8%**	**139,035**

in HUF million	December 31, 2017	December 31, 2018	Change	Change
Share capital	10,849	10,849	0.0%	0
Share premium	27,926	27,926	0.0%	0
Treasury shares	-207	-207	0.0%	0
Cash-flow hedge reserve	5	28	460.0%	23
Other reserves	1,727	932	-46.0%	-795
Retained earnings	1,613	-3,454	-	-5,067
Non-controlling interest	12,828	12,517	-2,4%	-311
Profit (loss) of the year	-4,409	6,645	-	11,054
Total shareholders' equity	**50,332**	**55,236**	**9.7%**	**4,904**
Total liabilities and shareholders' equity	**610,577**	**754,516**	**23.6%**	**143,939**

As of 31 December 2018, the Bank's consolidated balance sheet total by IFRS amounted to HUF 754.5 billion; and increased by HUF 143.9 billion or 23.6% compared to the value as of 31 December 2017. On the assets side volume of loans increased by 17.7%, refinanced loans increased by 37.5%, while volume of securities at fair value through profit and loss decreased by 100%, interbank lending decreased by 22.2%.

Liabilities increased by 24.8% altogether compared to the reference figures of 2017. Issued securities and due to banks showed increase (20.2% and 361%, respectively), while deposits from customers decreased by 7.6%.

Shareholders' equity increased by HUF 4.9 billion or 9.7% year-on-year, the main reason of which was the consolidated profit of 2018.

7.1.1 Interest earning assets

The Group's interest earning assets increased from HUF 599.1 billion as of 31 December 2017 to HUF 740.9 billion as of 31 December 2018. Interest earning assets contributed 98.2% to the balance sheet total.

Interbank lending

NBH and other interbank lending decreased from HUF 82 billion HUF as of 31 December 2017 to HUF 63.7 billion as of 31 December 2018. The item contributed 8.6% to interest earning assets as of 31 December 2018.

Securities

The value of Bank's securities at fair value through other comprehensive income increased from HUF 80.2 billion as of 31 December 2017 to HUF 192.1 billion as of 31 December 2018. Contribution of securities at fair value through other comprehensive income of interest earning assets was 25.9%. From the stock of securities at fair value through other comprehensive income discount treasury bills amounting to HUF 12.4 billion and government bonds amounting to HUF 153 billion and other bank and corporate bonds for sale amounting to HUF 26.7 billion, and investments amounting to HUF 0.2 billion.

Loans

As of 31 December 2018, the volume of loans showing an increase by HUF 58 billion compared to the previous year. Impairment to cover loan losses decreased from HUF 16.6 billion as of 31 December 2017 to HUF 12.6 billion as of 31 December 2018.

Volume of refinanced loans increased by 37.5% to HUF 105.3 billion during 12 months. As of 31 December 2018, the contribution of refinanced loans and gross own lending was 66.2% in total assets; the same ratio was 64.6% a year before.

Volume of corporate loans are increased by 27.9%, and housing loans are increased by 12.3% during the year.

Portfolio quality

The Bank had HUF 749.39 billion classified assets, HUF 104.86 billion contingent liabilities (altogether HUF 854.25 billion) as of December 31, 2018.

Claims on clients amounted to HUF 385.05 billion, moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 104.86 billion at the end of 2018. Of these 2962 loan contracts were classified as non-performing with an underlying volume of HUF 22.5 billion in claims and HUF 0.4 million as commitments with HUF 10.4 billion in impairments and provisions.

The stock of refinancing loans was HUF 105.3 billion, which is entirely classified as performing.

The total stock of due form banks was HUF 61.68 billion, which is entirely classified as performing.

The share of performing loans increased both in the entire and the loan portfolio compared to Januar 1, 2018.

As of December 31, 2018 97 % of the the classified portfolio was considered as performinghence the non-performing share amounted to 3 %.

In the loan portfolio the share of performing stock amounted to 94.16 %, the non-performing stock 5,84%.

Average impairment considerably increased both in the entire portfolio (1.69 %) and the loan portfolio (2.68 %) compared to end-2017.

7.1.2 Non-interest earning assets

Tangible assets amounted to HUF 2.8 billion as of 31 December 2017 and decreased by HUF 676 million year-on-year to HUF 2.2 billion. As of 31 December 2017 intangibles amounted to HUF 1.1 billion and decreased to HUF 388 million as of 31 December 2018.

Other assets amounted to HUF 10.4 billion as of 31 December 2018, decreasing by 67.4% (HUF 4.2 billion) year-on-year. Deferred tax assets reached HUF 0.7 billion. A significant item in other assets is the value of deposits amounted to HUF 3.4 billion as of 31 December 2018, it was HUF 3.1 billion as of 31 December 2017.

7.1.3 Interest bearing liabilities

Interest bearing liabilities in amount of HUF 682.1 billion as of 31 December 2018, (HUF 547.2 billion at the end of 2017) represents 90.4% of the balance sheet total. Issued securities and customer deposits gave major part of interest bearing liabilities.

Interbank funds

As of 31 December 2018 interbank funds amounted to HUF 156.7 billion and decreased by 361.0% on yearly basis. Contribution of interbank borrowings to interest bearing liabilities was 23.0% as of 31 December 2018.

CMBs and Bonds issue

The contribution of covered mortgage bonds – measured at amortised cost and at fair value – to the Bank's interest bearing liabilities was 32.4% as of 31 December 2018, which ratio was 33.6% in 2017. HUF 208.4 billion value of covered mortgage bonds as of 31 December 2018 was 24.1% higher than the figures of 31 December 2017 (HUF 167.9 billion). Increase in the value of the CMB portfolio was HUF 40.5 billion year-on-year.

The book value of bonds (both measured at amortised cost and at fair value) was HUF 6.0 billion as of 31 December 2018. The year-on-year decrease was 33.5%; the volume of bonds dropped by HUF 3.0 billion.

Deposits

Under a strategic cooperation agreement between the Bank and Hungarian Post, the Company signed a contract with Hungarian Post for certain financial mediation services. Under the agreement, beginning from December 2013 the network of Hungarian Post sells an expanding range of products in the retail term deposits and retail accounts segments. The volume of retail deposits sold through the Hungarian Post's network was HUF 19.3 billion at the end of 2018.

At the end of 2018 the Bank managed 197 thousand household and 12 thousand corporate current accounts, to which 172.4 thousand household and 6.6 thousand corporate cards were linked. Both in the number of accounts and the number of bank cards there was a slight decrease compared to the end of 2017. The number of Post-accounts wasroughly 72 thousand at the end of the year. Transactions with the underlying cards substantiall increased during 2018: purchases through POS terminals exceeded 31 million, the number of cash withdrawals through ATMs reached 5.6 million.

7.1.4 Other liabilities

The Bank reported among other liabilities the volume of accounts payable of HUF 107 million as well as accruals with the volume of HUF 1.7 billion. Other liabilities were HUF 10.8 billion as of 31 December 2018. At the end of 2018 the volume of the provisions amounted to HUF 3.99 billion.

A significant item among the provisions is that on 30 November 2018, the General Meeting of MTB Magyar Takarékszövetkezeti Bank Zrt. adopted the Takarék Group's new business strategy for the period 2019-2023. Due to this the Bank present HUF 459 million provision for the organization changes. Beside this, in 2018 the Bank expressed its willingness to change of some information systems and update the used information system, due to the new business strategy. For the contractual obligation, which is part of the existing contract, the Bank has set up provision of HUF 1,989 million.

7.1.5 Shareholders' equity

Takarek Mortgage Bank Co. Plc. at the end of December 2015 increased its share capital with HUF 4,249 million face value, or HUF 30.5 billion issue value. The capital increase was executed by issuing dematerialized dividend preference shares (Series "B") and dematerialized ordinary shares (Series "C").

The composition and amount of the registered capital of the company on the 31st of December 2018

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

7.2 PROFIT & LOSS STRUCTURE

The Balance sheet has been constructed in accordance with controlling intention, which resulted in a different structure from categories used by accounting.

HUF million	2017 FY	2018 FY	Change (%)
Interest income	22,684	23,730	4.6%
Interest expense	-9,839	-9,039	-8.1%
Net interest income	**12,845**	**14,691**	**14.4%**
Fee and commission income	7,811	8,191	4.9%
Fee and commission expense	-2,236	-3,149	40.9%
Net fee and commission income	**5,575**	**5,042**	**-9.6%**
Profit/Loss from FX transactions	446	381	-14.6%
Change in fair value of financial instruments	85	3,003	3432.9%
Net results from investment services	1,390	1,847	32.9%
Net trading result	**1,921**	**5,231**	**172.3%**
Other operating revenue	2,229	5,617	152.0%
Other operating expense	-11,528	-5,740	-50.2%
Net income from investment services	192	0	-100.0%
Profit/Loss of affiliated companies	-1,139	-244	-78.6%
Operating income	**10,095**	**24,597**	**143.7%**
Provision for impairment on loan losses	-1,634	757	-
General and administrative expense	-17,783	-18,605	4.6%
Profit/Loss before tax	**-9,322**	**6,749**	**-**
Income tax	-1,889	-163	-91.4%
Profit/Loss after tax w/o the effect of discontinued operation	**-11,211**	**6,586**	**-**
Profit/Loss from discontinued operation	3,023	0	-100.0%
Profit/Loss for the period	**-8,188**	**6,586**	**-**

The Bank's consolidated profit for the year by IFRS amounted to HUF 6,586 million in 2018. The significant improvement compared to 2017 is mostly explained by the change in the fair value of financial instruments.

7.2.1 Net interest income

Net interest income was HUF 14.7 billion in 2018, 14.4% higher than a year before. The main factor behind this growth was decreasing interest expenses on issued securities, supported by the entry of the MNB as a power buyer of mortgage bonds from the second half of 2018.

The net figure resulted from HUF 23.7 billion interest income (up 4.6% year-on-year) and HUF 9 billion interest expense (down 8.1% year-on-year). The net interest margin (net interest income relative to average total assets, aka NIM) was 2 bps higher than in 2017.

Composition of interest income and expenses:

	2017	2018	Change
Interest income			
Loans	72.6%	68.1%	*-4.5%-pt*
Refinancing	6.9%	9.9%	*3.0%-pt*
Mortgage bond interest subsidy	8.1%	6.9%	*-1.2%-pt*
Supplementary interest subsidy	1.4%	1.3%	*-0.1%-pt*
Securities and interbank activities	7.4%	8.6%	*1.2%-pt*
Swap transactions	3.6%	5.2%	*1.6%-pt*
Interest expenses			
Bonds issued	80.5%	79.1%	*-1.4%-pt*
Interbank activities	0.5%	0.7%	*0.2%-pt*
Customer deposits	10.1%	5.4%	*-4.7%-pt*
Derivatives	8.8%	14.4%	*5.6%-pt*
Other interest expense	0.1%	0.4%	*0.3%-pt*

7.2.2 Net fees and commissions

In 2018, the Bank achieved a positive balance of HUF 5 billion from revenues and expenses on commissions and fees; 9.6% lower than a year before. From the revenue side more marked increases were observed in fees connected to mortgage loans, whereas from the expenses side especially fees connected to guarantees showed above average growth.

7.2.3 Net trading result

In 2018, the balance of financial transactions showed HUF 5.2 billion profit, which is HUF 3.3 billion higher than a year before. The net result of F/X transactions was HUF 381 million in 2018, which is somewhat lower (by HUF 65 million) than in the previous year.

In 2018 the change in the fair value of financial instruments showed HUF 3 billion profit, markedly up from the preceding year's HUF 85 million profit. Securities transactions resulted in HUF 1.8 billion profit against only HUF 1.4 billion in 2017.

7.2.4 Other operating income and expenditure

As a result of HUF 5.6 billion in other revenues and HUF 5.7 billion in other expenses the balance on other operations showed a minor loss of HUF 123 million in 2018. There was no profit on investment services, which had a HUF 192 million positive balance in the previous year.

7.2.5 Operating expenses

Operating costs amounted to HUF 18.6 billion in the course of 2018, which is 4.6% higher than in 2017. The cost-to-income ratio (CIR)[3] was 74.5% in 2018, while it was 86.6% the year before.

The contribution of personnel related expenses to total operating costs was 32.5% in 2018, 8.4 percentage points lower than in 2017, when it was 40.9%.

Administrative expenses in 2018 amounted to HUF 12 billion, rising by close to 10% year-on-year. Expenses of business activity significantly decreased overall, the HUF 243 million expenses last year were 31.4% short of HUF 354 million in 2017. Commercial and advertising expenses decreased by HUF 204 million, but consultants' fees increased sharply by HUF 4.1 billion.

Other taxes paid that are reported among operating costs amounted to HUF 36.7 million in 2018, down from HUF 39.7 million in 2017.

7.2.6 Impairment and loan losses

Combined risk costs amounted to HUF 757 million in 2018. Impairment losses changed by HUF 2.4 billion compared to the end of last year.

7.3 Capital position

Members of the SZHISZ - in view of the institutional system of joint liability - should comply with prudential requirements on a consolidated basis, individual compliance is ensured by exemption from the relevant legislation according to the decision of the MNB. Since the Bank and the Commercial Bank are members of the SZHISZ, the above exemption applies to them.

Accordingly the regulatory capital of the group contains the following elements: registered capital - repurchased own shares + capital reserve + general reserve + share option reserve + accumulated wealth - intangible assets - IRB loss. The solvency capital on Integratin level amounted to HUF 233,499 million as of December 31, 2018, compared to HUF 230,782 million a year before.

8 PROTECTION OF ENVIROMENT

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

9 OTHER SERVICES PROVIDED BY THE AUDITOR COMPANY

Under the label of other services in 2018 the auditing company invoiced the Bank HUF 1.8 million for examining whether the Bank meets the conditions to convert to reporting according to IFRS.

[3] In the calculation of the ratio, incomes include net interest income, net fee and commission income and net trading result.

10 POST BALANCE SHEET DATE EVENTS

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

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

Budapest, April 2, 2019

dr. Gyula László Nagy
Chief Executive Officer

Takarék Jelzálogbank Nyrt.
TAKARÉK JELZÁLOGBANK
1082 Budapest, Üllői út 48.

Attila Mészáros
Board Member

PROPOSAL
FOR AGENDA ITEM 1.3

●

REPORT OF THE SUPERVISORY BOARD ON THE YEAR 2018 REPORTS OF TAKARÉK JELZÁLOGBANK NYRT. (CREDIT INSTITUTION REPORT COMPILED IN ACCORDANCE WITH HUNGARIAN ACCOUNTING STANDARDS AND (CONSOLIDATED) IFRS STATEMENTS)

The Supervisory Board examined the business report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("the Company") for the financial year 2018, as well as its annual report for the financial year 2018, including the balance sheet, the profit and loss statement and the notes to the financial statement.

Based on the report of the Company's auditor, the Supervisory Board concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

I.

The Supervisory Board recommends that the General Meeting accepts the credit institution report prepared by the Company in accordance with the Hungarian accounting standards as at 31 December 2018 (balance sheet, profit and loss statement and notes to the financial statements)

with the balance sheet amount of HUF 332,292 million.

The Supervisory Board recommends to the General Meeting to place the profit of HUF 2,271 million for the year 2018 in the retained earnings.

The Supervisory Committee also initiates the acceptance of the business report for 2018.

II.

The Supervisory Board recommends to the General Meeting to accept the consolidated financial statements of the Company for 2018 compiled in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union

with the balance sheet amount of HUF 754,516 million
and profit after tax of HUF 6,586 million.

PROPOSAL
FOR AGENDA ITEM 1.4

●

REPORT OF THE AUDIT COMMITTEE ON THE YEAR 2018 REPORTS OF TAKARÉK JELZÁLOGBANK NYRT. (CREDIT INSTITUTION REPORT COMPILED IN ACCORDANCE WITH HUNGARIAN ACCOUNTING STANDARDS AND (CONSOLIDATED) IFRS STATEMENTS)

The Audit Committee examined the business report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("the Company") for the business year 2018, as well as its annual report for the business year 2018, including the balance sheet, the profit and loss statement and the notes to the financial statement.

Based on the report of the Company's auditor, the Audit Committee concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

The Audit Committee supports the following recommendations of the Supervisory Board:
I.
The Supervisory Board recommends that the General Meeting accepts the credit institution report prepared by the Company in accordance with the Hungarian accounting standards as at 31 December 2018 (balance sheet, profit and loss statement and notes to the financial statements) with the balance sheet amount of HUF........ million.

The Supervisory Board recommends to the General Meeting to place the profit of HUF .... million for the year 2018 in the retained earnings during the annual allocation of profits.

The Supervisory Committee also initiates the acceptance of the business report for 2018.

II.
The Supervisory Board recommends to the General Meeting to accept the consolidated financial statement of the Company for 2018 compiled in accordance with International Financial Reporting Standards ("IFRS") with the balance sheet amount of HUF .... million and profit after tax of HUF .... million.

The Audit Committee recommends that the Supervisory Board's report as detailed above be submitted to the General Meeting.

PROPOSAL
TO ITEM NO. 2. OF THE AGENDA

●

DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY FOR THE EXECUTIVE OFFICERS CONSIDERING THE SUITABILITY OF THEIR ACTIVITY PERFORMED IN THE BUSINESS YEAR OF 2018

Proposal:

According to Article 3:117 (1) of the Act V of 2013 on the Civil Code ("Civil Code") the General Meeting may provide a discharge of liability to an executive officer at the time of approval of the financial report, thus acknowledging the executive officer's management activities during the previous financial year.

By considering the reasons below, the Board of Directors of the Takarék Mortgage Bank Co. Plc. requests the General Meeting to issue the discharge of liability.

Last year the Board of Directors followed, discussed the cases falling within its scope of competence, and held meetings regularly in order to adopt the resolutions required or adopted resolutions by means of telecommunication. The ordinary General Meeting of 2018 presented the activities of the Takarék Mortgage Bank Co. Plc. in 2017 and the achieved results.

The Board of Directors has informed the investors on the business activity of Takarék Mortgage Bank Co. Plc. according to Chapter V of Act CXX of 2001 on Capital Market and the related regulations.

In compliance with and in line with the laws on credit institutions and financial enterprises as well as on accounting, the annual financial report of the Takarék Mortgage Bank Co. Plc. and the consolidated annual financial report was prepared and also prepared to be proposed at the General Meeting.

Takarék Mortgage Bank Plc.'s consolidated IFRS profit for the year 2018 is a profit of HUF 6,586 billion, and the consolidated comprehensive result of the Bank is 6.274. million profit. The more favorable result was primarily due to changes in the instruments that were actually measured against the result.

The balance sheet total of Takarék Mortgage Bank Co.Plc. according to the Hungarian Accounting Standards was HUF 333,292 million, which is 9,7% higher than at 31st of December 2017. The profit of Takarék Mortgage Bank Co.Plc. in the current year amounted to HUF 2,271 million.

According to the standpoint of the Board of Directors, in order to keep the value of shares, pursued its work by respecting the priority of the interests of Takarék Mortgage Bank Co. Plc., therefore requests the General Meeting, discussing the annual financial report of the Takarék Mortgage Bank Co. Plc. for 2018, to be held on 25 April 2018, to evaluate the activities performed by the executive officers in business year 2018, and based on the evaluation, issue a discharge of liability, thus acknowledging the executive officers' management activities during the financial year of 2018.

In case the discharge of liability is issued, Takarék Mortgage Bank Co. Plc. may sue the members of the Board of Directors for damages on the grounds of harming the management duties, if the facts and data on the basis of which the discharge of liability was issued were false or incomplete.

The facts and data on the basis of which the discharge of liability is issued are available in the following documents:

- report on the half year results;
- report on the results for 2018;
- interim management reports;
- extraordinary announcements;
- audited financial statements (annual report) for the year 2018, report of the auditor and the Supervisory Board;
- corporate governance report.

The Supervisory Board agrees with the proposal of the Board of Directors.

Proposed Resolution:

The General Meeting has evaluated the activities performed by the executive officers in business year of 2018, and based on the evaluation, issues a discharge of liability, thus acknowledging the executive officers' management activities during the financial year of 2018.

PROPOSAL
FOR AGENDA ITEM 3

●

ELECTION AND DETERMINATION OF THE REMUNERATION OF THE COMPANY'S AUDITOR

Proposal:

Deloitte Könyvvizsgáló és Tanácsadó Kft. (hereinafter referred to as: Deloitte) has performed audit tasks for Takarék Jelzálogbank Nyrt. in the previous years.

During the review of the previous annual reports, Deloitte's professional cooperation has greatly contributed to the preparation of accounting and financial reports. The Deloitte Group also contributed to the review of the reports of the entire cooperative credit sector as a central auditor.

In the course of the aforementioned duties, Deloitte provided the appropriate expert team for the audit and other review work needed for the integration of the cooperative credit institutions.

The statutory compliance review required for the selection of the audit company and the auditor in charge has been performed, the result of which is presented below.

- Compliance with the condition laid down in Section 67/A of Act LXXV of 2007 on the integration of cooperative credit institutions and amendments to certain economic laws: ensured, the commission for auditing the annual reports does not exceed 8 consecutive business years.
- Compliance with the condition laid down in Article 17 of Regulation (EU) No. 537/2014: ensured, the commission did not exceed maximum 10 years set out for the auditing company and maximum 7 years for the auditor in charge.
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 260 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (additional report to the Audit Committee)
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 17/K, paragraph (6) of Act CXXXV of 2013 on the integration of cooperative credit institutions and amendments to certain economic laws.

Therefore, it can be stated that there are no exclusion conditions against the election.

We recommend Deloitte Könyvvizsgáló és Tanácsadó Kft. be elected as the auditor of Takarék Jelzálogbank Nyrt. in 2019 as well.

In the event Deloitte is elected, the registered auditors in charge will be ………, if they are prevented from performing their tasks: ………, and we recommend that the General Meeting of Takarék Jelzálogbank Nyrt. accepts this.

The recommended auditing fee of Deloitte in 2019 is **HUF … million + VAT (HUF … million)**.

DRAFT RESOLUTION
for agenda item 3

The General Meeting of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ('Company') supports that the audit tasks of Takarék Jelzálogbank Nyrt. be performed by Deloitte Könyvvizsgáló és Tanácsadó Kft. for the 2019 business year for the fee of HUF …. million + VAT (HUF ... million).

The General Meeting of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság supports that the auditor in charge be ...., if he/she is prevented from performing his/her tasks: ....

PROPOSAL

TO THE ITEM NO. 4 OF THE AGENDA

ACCEPTANCE OF THE REPORT ON CORPORATE GOVERNANCE

PROPOSAL

Acceptance of the report on Corporate Governance

Companies being present on the stock exchange are obliged to prepare and publish the Corporate Governance Report based upon the Recommendations on Corporate Governance defined by the Budapest Stock Exchange (“BSE”), which, according to Article 3:289 of the Act V of 2013 on Civil Code (“Civil Code”), is to be approved by the general meeting.

According to the guide of BSE, the recommendations can be considered as a supplementation of the Hungarian legislation (basically of the Civil Code), primarily for public companies being present on the stock exchange and having their registered seat in Hungary. The recommendations suggest proposals for the recommended practice. It is recommended to comply with the proposals as defined in the recommendations; however it is not compulsory for the listed companies.

Companies being present on the stock exchange are obliged to report on their practice on corporate governance in two ways. In the first part of the report the practice on corporate governance applied in the respective business year is to be presented in a precise, comprehensive and unambiguous way, expressing the corporate governance policy as well as particular circumstances, if any. In the second part of the report the compliance with the concrete recommendations is to be shown in accordance with the principle of "*comply or explain*", furthermore, information are to be given whether the concrete proposals defined in the recommendations are applied.

Companies being present on the stock exchange are to prepare and publish their Report on Corporate Governance within 120 days from the end of the respective business year (in case of companies defining business year identical with the calendar year the deadline is 29 April).

The present proposal gives proposal for approving the Corporate Governance Report of Takarék Mortgage Bank Co. Plc. for year 2018, as contained in the attached annex.

PROPOSED RESOLUTION

to Item No. 4 of the Agenda

The General Meeting approved the Corporate Governance Report of the Company for year 2018 as set forth in the written proposal related to this item of the agenda.

A
Responsible Corporate Governance Report of the
Takarék Mortgage Bank Co. Plc

for

2018

[nd] of April 2019

1. Presentation of the operation of the Board of Directors, and the division of responsibilities and duties between the Board of Directors and the management

The Board of Directors is the legal representative and managing body of the Company, and it represents the Company against third parties, as well as before courts and other authorities, manages and controls the business activity and finances of the Company, and provides the conditions of successful operation.

The organisation and operation of the Board of Directors is governed by the Articles of Association and the Rules of Procedure of the Board of Directors. The Board of Directors has the authority to establish the Rules of Procedure of the Board of Directors. Both the Articles of Association and the Rules of Procedure of the Board of Directors are available at the official website of the Company (www.takarek.hu).

The Board of Directors consists of at minimum five and at maximum eleven members. The Board of Directors consisted of five members in 2018. The members of the Board of Directors are elected by the general assembly from among the shareholders or other persons. In accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings (Credit Institutions Act) and the Articles of Association, in 2018, from among the members of the Board of Directors, the CEO of the Company and the Deputy CEO(s) are in continuous labour relationship with the Company (internal Board members).

The members of the Board of Directors shall be liable towards the Company for any damage caused thereto by breaching the provisions of the law, the Articles of Association, the resolutions of the general assembly or their obligations in accordance with the rules of civil law. The body shall have joint and several liability for damage caused in this manner. If the damage was caused by a resolution of the Board of Directors, any member of the Board of Directors who did not participate in the passing of the resolution or voted against it – and notified the Supervisory Board regarding this in writing within fifteen days after the passing of the resolution – shall be exempted from liability.

The Board of Directors shall make its decisions objectively, having regard to the interests of all shareholders, and striving to be independent of the influence of the management and any given shareholder. The members of the Board of Directors, in their capacity as Board members, may not be given orders by the shareholders of the Company or their employer.

In 2018, the Board of Directors conducted its activity based on half-yearly work schedules. The Board of Directors holds meetings as frequently as necessary, but at least once every two months, and as of the amendment of the Articles of Association in effect since 29 September 2018, at least once every three months. The Board of Directors discusses matters conferred to its authority based on written proposals. It makes its decisions in the form of resolutions, based on the draft resolutions submitted by the proposing person. The proposals and the related draft resolutions are prepared by the management for the Board of Directors. The head of the organisation preparing the proposal and the Deputy CEO exercising professional supervision, or in the absence of such person, the CEO exercising professional supervision shall be responsible for the substantive soundness of the proposals. The members of the Board of Directors shall be notified regarding the time and date and agenda of the Board meetings 5 business prior to the meeting, and the written proposals shall also be sent to them together with this notice.

The Board of Directors has a quorum if at least half of the Board members is present. The Board of Directors passes its resolutions via open ballot, with simple majority of votes (with the exception of the cases set out in the Rules of Procedure of the Board of Directors). Members of the Board of Directors concerned in any manner in the matter discussed may not participate in the passing of the resolution The chairman of the Board of Directors orders a secret ballot upon the request of any member of the Board of Directors.

In emergencies, the Board of Directors may also pass resolutions validly via phone, fax or other means, provided that the Company delivers the proposal requiring decision to the Board members in writing, at least by electronic means, and more than half of the members execute their votes in the form of a private instrument with full evidencing force, and send such instrument to the registered office of the Company within two days.

The chairman of the Supervisory Board or the Supervisory Board member appointed by the chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as permanent invitee. The chairman of the Board of Directors may invite the auditor or asset controller of the Company or any other person, who may participate in a consultative capacity. In 2018, the auditor of the Company, the supervisor of the Magyar Nemzeti Bank (Central Bank of Hungary) (the supervisory body hereinafter referred to as: “Supervisory Authority”) – proceeding with regard to its tasks related to the supervision of the system of financial intermediation – responsible for supervision of the Company, and the representative of MTB Zrt and the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete) were invited to all meetings of the Board of Directors.

The members of the Board of Directors elect a chairman from among themselves. The work of the Board of Directors is controlled by the Chairman. If the chairman is prevented from performing its tasks, the Board member designated by him/her shall be responsible for performing the chairman’s tasks.

The scope of tasks and authority of the Board of Directors are set out in detail in the Articles of Association and the Rules of Procedure of the Board of Directors. The authority of the Board of Directors includes powers related to the strategy and business and financial activity of the Company, tasks and powers related to the operation and organisation of the Company, powers related to capital increase and own shares, powers related to the control of companies under joint supervision with the Company, company founding and investments, rights related to representation of the Company, and powers related to the operation of the Board of Directors.

In 2018, the senior management of the Company conducted its activity in the following composition: CEO, Deputy CEO. Both were also internal members of the Board of Directors. The Board of Directors exercises the employer’s rights over the members of the management via the chairman of the Board of Directors.

The CEO is an employee in labour relationship with the Company, and is the senior manager employee of the Company. The CEO shall perform the management and controlling of the Company’s daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, to the employment relationship of the Chief Executive Officer the Labour Code, while to his/her election to the Board of Directors and his/her Board membership the Credit Institutions Act and the rules of the Civil Code on service contracts applied and shall apply.

The Board of Directors and the CEO share the tasks as follows: The CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association, in accordance with the resolutions passed by the general assembly and the Board of Directors. The CEO shall be responsible for taking a decision in cases which do not fall within the exclusive competence of the general assembly or the Board of Directors. The CEO shall regularly inform the Board of Directors and – between the meetings – the chairman of the Board of Directors regarding the matters related to the operation of the Company. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the members of the Board of Directors.

The CEO shall exercise the employer’s rights over the employees of the Company, except with regard to the Deputy CEO. The division of tasks and powers of the CEO and the Deputy CEO within the organisation is set out in the by-laws of the Company, and the Board of Directors has the power to approve any amendment thereof that would result in significant organisational changes.

2. Members of the Board of Directors, the Supervisory Board and the management

2.1. Board of Directors

In 2018, the following persons were members of the Board of Directors of the Company:

External, independent members who do not have any other legal relationship with the Company:

VIDA József, chairman – Member of the Board of Directors since 30 November 2016, chairman of the Board of Directors since 5 December 2016
József Vida is an economist who studied company management, as well as liquidation and bankruptcy law in several universities.. His career in the bank profession started at Citibank Zrt in 1999, and in 2003, he switched from the position of Head of General Department of the Magyar Takarékszövetkezeti Bank (Bank of Hungarian Savings Co-operatives) to the Director of the Szentgál és Vidéke Takarékszövetkezet (Active Business of the Szentgál and Surroundings Savings Co-operative), where he worked as managing director from 2006, and after that, as CEO. In the past decade, he had a significant role in the integration efforts of savings co-operatives, and from 2007, he represented his region throughout two cycles in the senior representative body of savings co-operatives as a member of the presidency of the National Association of Savings-Cooperatives. He assisted in the work of "Takarék Akadémia" (Savings Academy) and integration companies Takinvest Kft and TAKINFO Kft – leading operators in the field of IT – as founder and officer. He is a member of the Board of Directors of the Magyar Takarékszövetkezeti Bank Zrt. and the CEO of the Magyar Takarék Befektetési és Vagyongazdálkodási Zrt. (Hungarian Savings Investment and Asset Management). The largest merger of the savings co-operative sector took place under his leadership. This resulted in the fusion of ten savings co-operatives and the founding of B3 SAVINGS Co-operative on 1 September 2015, which services almost 130 thousand clients in Budapest and four other counties. In the past years, József Vida actively participated in the implementation of the governmental integration strategy, and supported and assisted in the performance of the tasks necessary for implementation of the Integration Act. In 2014, he was awarded the Károlyi Sándor memorial plaque for his outstanding efforts in relation to the development of the integration of savings co-operatives. In July 2016, he was elected as the Chairman of the Board of Directors of the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete), which office he held until 8 December 2016. On 8 December 2016, the general assembly of the Magyar Takarékszövetkezeti Bank Zrt. elected him as a member of the Board of Directors. As of 18 January 2017, he is the chairman of the Board of Directors and CEO. In addition to his work in the savings co-operatives, József is living a farmer himself, in 2016 he acquired a degree in Forestry and Wildlife Management, breeding Hanover horses and holding senior positions in several organisations (Federation of the National Associations of Hungarian Dog Breeders, National Association of Leonberg Dog Breeders, National Association of Hungarian Hovawart Dog Breeders.)

SOLTÉSZ Gábor Gergő – internal member prior to 30 November 2016, external member after that.
In 2003, he graduated from the Faculty of Finance, Budapest University of Economics. He worked at OTP Bank Plc's Credit Analysis and Credit Monitor between 2003 and 2004, followed by the Project Financing and Syndicates of Raiffeisen Bank Ltd.between 2004-2006. Since March 2006, he is Deputy Head of Corporate and Structured Finance at FHB Bank Ltd. Since 2008, the Managing Director of FHB Commercial Bank Ltd"s Corporate Directorate, and Deputy CEO as of December 1, 2010
He has been a member of the Board of Directors since 24 April 2013. He also held the office of CEO at FHB Bank Zrt, where he was also a member of the Board of Directors. He resigned from his office of Deputy CEO at the Company and his office of Deputy CEO and internal Board of Directors membership at FHB Zrt on 31 January 2015, but he remained a member of the Board of Directors of the Company.

HEGEDŰS Éva – member of the Board of Directors since 18 October 2018
She graduated from the Budapest University of Economics. She started his professional career at a consulting company, from where she moved on to governmental institutions. As a deputy state secretary at the Ministry of

Finance, and later at the Ministry of Economy, she managed the preparation of several laws that constitute the fundamentals of market economy in Hungary (Act on Credit Institutions, Act on Bankruptcy, Act on Electric Power), and she coordinated the establishment of several institutions (e.g. Hitelgarancia Zrt.).
Beginning in 1997, she organised the restart of issue of mortgage deeds in Hungary as the Deputy CEO of the Földhitel és Jelzálogbank (Land Loan and Mortgage Bank). From 2002, she managed the Residential Business of OTP Bank, and she was the chairwoman of the OTP Lakástakarékpénztár (Building Savings Co-operative). Since 2010, she has been managing GRÁNIT Bank, which she has been a shareholder of since foundation.
She was responsible for developing the digital business model of GRÁNIT Bank, thanks to which, the bank – providing services mainly via electronic channels – developed many leading digital services.
She is a member of the Hungarian Banking Association (Magyar Bankszövetség) and the secretary general of the Hungarian Economic Society (Magyar Közgazdasági Társaság). In 2015, she was elected as “Banker of the year” in a secret ballot of bank managers, while in 2016, she was elected as “Female manager of the year”, and she also holds several other Hungarian and international awards.

Internal members in labour relationship with the Company:

Dr. NAGY Gyula, CEO – since 26 April 2017
He graduated from the Foreign Trade specialty of the Budapest University of Economics in 1976, after which, in 1981 he also acquired specialist economist qualification, as well as a doctorate in economy. From 1977, worked as the Head of the Export Department of the Ganz Electricity Meter Plant, and later he worked as a salesman of Unicbank Rt and the Head of the Large Corporation Partner Relations Department of Citibank Hungary Rt. He managed the Corporate Business of BNP-Dresdner Bank Rt between 1991 and 1995, and of HVB Bank Hungary Rt between 1995 and 1999. He was a Deputy CEO and member of the Board of Directors of HVB Bank Hungary Rt between 1999 and 2001, and the CEO of Unicredit Jelzálogbank Zrt between 2001 and 2007. As of October 2007, he has been the head of the Independent Partner Refinancing and Integration Department of FHB Nyrt, where he manages the refinancing activity of the FHB Group. He is a master-level property expert and a member of the Research and Statistics Working Group of the European Mortgage Federation.

TÓTH Edit Erika, Deputy CEO – from 26 April 2017 to 25 June 2018
She resigned from her Board of Directors membership effective 31 May 2018, but her legal relationship only terminated upon the effective date of election of the new Board member in order to maintain the operability of the Board of Directors.

BANNERT András – from 2 July 2018 to 30 September 2018
His Board of Directors membership terminated along with the termination of his labour relationship on 30 September 2018.

MÉSZÁROS Attila, Deputy CEO – external member of the Board of Directors between 30 November 2016 and 26 September 2018, internal member of the Board of Directors since 11 October 2018
He also has agricultural engineer qualification, qualification as engineer with specialty degree in economics, and two MBA qualifications. He worked at Credit-Lyonnais Magyarország Bank Zrt, and between 2001 and 2007, at the Directorate of Large Corporation Relations of K&H Bank Zrt, and as the director of the Credit Risk Management Directorate of the same. Between September 2007 and December 2009, he managed the Restructuring Department of MKB Bank Zrt, and then he held the office of CEO and chairman of the Board of Directors of the Romanian debt collection subsidiary of MKB Bank Zrt. From November 2011, he worked as a financial restructuring consultant at Ernst&Young Tanácsadó Kft, and later in his own company. Between July 2014 and February 2015, he worked under the mandate of Pénzügyi Stabilitási és Felszámoló Nonprofit Kft as a supervisory commissioner during the winding-up of five credit institutions. Between 2015 and 2017, he managed the Subsidiary Management Department of the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete), and he also held the office of chairman of the Board of

Directors of the Bóly and Surroundings Savings Co-operative (Bóly és Vidéke Takarékszövetkezet), worked as the managing director of Takarékszövetkezeti Informatikai Kft, and was a member of the Board of Directors of the Common Capital Coverage Fund of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Tőkefedezeti Közös Alapja). He was an external member of the Board of Directors of Takarék Jelzálogbank Nyrt from November 2016 until his resignation, and a member of the Supervisory Board of Takarék Invest Kft and Takarék Központi Követeléskezelő Zrt from 2017. He worked as the managing director responsible for the Risk Department of the Magyar Takarékszövetkezeti Bank Zrt. from April 2017, and he is managing the Risk Division as Deputy CEO at the Magyar Takarékszövetkezeti Bank and Takarék Kereskedelmi Bank.

2.2. Supervisory Board, Audit Committee

Members of the Supervisory Board of the Company in 2018 were the officers as follows:

DR. HARMATH Zsolt chairman - as of 2 January 2017
He had obtained his undergraduate degree in 1999 in economics, then qualified as a chartered accountant. He finished his postgraduate studies in 2005 as a lawyer. From 1999 to 2010 he was employed by Magyar Posta Zrt. where he climbed the corporate ladder. He had started as a cost analyst / controller at the Budapest Directorate, then became Head of Department of Economics in 2001 and Deputy Director of Finance in 2003. From 2005 he had comprehensive responsibility for the financial module of the enterprise resource planning system at Magyar Posta. He had been Director of the management control system, accounting and asset valuations at the Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian National Asset Management) from 2010, then became Head of Finance from 2014. He filled remarkable positions at many companies, including being a member of the Board of Directors at Rába Nyrt., then the chairman of the Supervisory Board as well as the chairman of the Supervisory Board of the Volán corporations.

DR. ANTAL KADOSA Adorján – Member of the Supervisory Board between 2 January 2017 - 1 August 2018
He resigned from his membership of the Supervisory Board on 19 April 2018 but in order to sustain the operability of the Supervisory Board his membership terminated on 1 August 2018.

DR. KOVÁCS Mónika – Member of the Supervisory Board since 2 January 2017
Lawyer, she obtained her degree at the Faculty of Law of the University of Pécs. She started her career in 2005 at the Magyar Közlöny Lap- és Könyvkiadó Kft. as a lawyer. From 2009 she managed the gazette and the electronic publications business as Business Director. Her responsibility covered the legal matters as well as the management of the customer services and sales points, and the complete editorial board. Between 2005 and 2008 she worked as an external lecturer at the Department of Constitutional Law at the University of Pécs. She was a member of the Supervisory Board at Magyar Posta Zrt. and also worked as deputy state secretary at the Ministry of National Development.

PÓRFY György – Member of the Supervisory Board since 2 January 2017
He graduated at the University of Economics. He has been working since 1994 in banking, first he had started at Merkantil Bank, then filled management positions at BNP-Dresdner Bank Hungária Rt. and later at Kereskedelmi és Hitelbank Rt, then from 2002 he became Head of Department, then managing director at the Directorate for Large Enterprises at Unicredit Bank Hungary Zrt. He had been CEO of Unicredit Leasing Hungary Zrt. from 2010 and then became CEO of Unicredit Jelzálogbank Zrt. from 2012. He has been leader of the Corporate Business Division of Magyar Takarékszövetkezeti Bank Zrt. since April 2016.

DR. REININGER Balázs – Member of the Supervisory Board since 2 January 2017
Lawyer, Head of Office at Reininger Law Firm. He was born in Budapest in 1977. He completed his legal studies in 2001 at the Faculty of Law of Eötvös Loránd University with excellent results. He studied law simultaneously with Hungarian then Finnish scholarship at the Faculty of Law of the University of Helsinki. He had spent his years of internship at international law firms, then after successfully taking the professional exam he founded his

law firm in 2005 with his own name, which he has been managing since that time, representing domestic and international companies in economic and commercial cases and providing strategic consultation. Simultaneously with his legal business he was also the head solicitor at PLUS Élelmiszer Diszkont Kft. between 2007-2008. During and after his university studies he was an active external lecturer at the Department of Roman Law of Eötvös Loránd University. DR. REININGER Balázs has been a member of the Arbitration Panel of the Hungarian Chamber of Agriculture since 2013; a member of the Public Procurement Authority Council since December 2015, and chairman of the Supervisory Board of Új Világ Nonprofit Kft. since April 2016.

DR. GÖDÖR Éva – Member of the Supervisory Board since 1 August 2018
Lawyer. She obtained her legal degree at the Faculty of Law of Eötvös Loránd University in 2002. She passed her professional exam in 2006. Since 2007 she has been involved as a freelance lawyer in the support of lending and workout activities of financial institutions and savings cooperatives, and in property law, employment law, corporate law cases as well as in the management of cases related to social institutions.

GÖRÖG Tibor – member of the Supervisory Board since 15 October 2018
He graduated at the Faculty of Economics of the University of Novi Sad. With more than 20 years of experience in domestic and international finance and economics he joined the savings cooperative industry in 2012. He is the managing director in strategic matters at 3A Savings Cooperative, and was a member of the Supervisory Board at Magyar Takarékszövetkezeti Bank Zrt.until 3rd of June 2018, then become the leader of the Operation Division. He is also a member of the Supervisory Board of the Integration Organization of Cooperative Credit Institutions, and a member of Board of Directors at the Management Board of Magyar Takarék Ellátó Zrt.

All of the above members of the Supervisory Board are independent, they do not have any other legal relationship with the Company. Accordingly, the general assembly of the Company elected DR. HARMATH Zsolt, PÓRFY György and GÖRÖG Tibor from the Supervisory Board to be members of the Audit Committee established in accordance with the Credit Institutions Act.

2.3. Company management

In 2018 the Company management included the members as follows:

CEO:
DR. NAGY Gyula since 26 April 2017
Internal member of the Board of Directors. See introduction in section 2.1.

Deputy CEO:
TÓTH Edit Erika from 26 April 2017 to 25 June 2018
BANNERT András – from 2 July 2018 to 30 September 2018
MÉSZÁROS Attila - since 11 October 2018
Internal member of the Board of Directors. See introduction in section 2.1.

Detailed introduction of the professional career of the members of the Board of Directors, the Supervisory Board and the Management is available on the Company website (www.takarek.hu).

3. Information on the work of the Board of Directors and the Supervisory Board in 2018

3.1. Introduction of the work executed by the Board of Directors in 2018

3.1.1 Summary of the tasks executed by the Board of Directors

The Board of Directors had a total of 6 meetings in 2018, whereof 1 was a shared meeting with the Supervisory Board, and there was one instance of an unscheduled meeting as per the agenda of the board. There were 27 instances of concluding a decision out of the scope of a meeting. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The Board of Directors, apart from deciding on tasks set out in the work schedules, many times decided at the meetings and within the scope of written voting on matters not stated in the work schedule but within the competence of the board.

In most of the cases the reports, notices and other proposals compiled by the management or in cooperation of the manager of the field of practice concerned in the consideration of the reviewed topic were submitted in a written form to be on the agenda of the meetings. The Board of Directors discussed the topics on its agenda with due diligence, the members of the board supplemented and clarified the proposals on a regular basis with their professional comments and remarks, or phrased amendments where it was applicable.

Topics to be highlighted and discussed in 2018 by the Board of Directors are as follows:

- The Board of Directors had substantial focus in 2018 on the most important events concerning the Company, and published by the Company in accordance with the applicable capital market related regulations, with particular attention to changes in the senior management of the Company.

- The Board of Directors paid particular attention also in 2018 to the implementation of the applicable integration policies.

- The Board of Directors paid particular attention also in 2018 to the implementation of measures targeting the establishment of a clear mortgage bank profile.

- In 2018, similarly to the earlier years, the Board of Directors discussed the management report on the current business and financial situation of the Company as a permanent item of the agenda, and in consideration of that they were able to monitor the operation and financial position of the Company on an ongoing basis. As a result of that the Board of Directors always had sufficient information during the year on the internal and external conditions impacting the operation of the Company, it was able to identify situations that may result in negative impacts, and respond to them with the necessary measures, and to support the work of the management with professional recommendations.

- The Board of Directors paid particular attention also in 2018 to the analysis of the financial operation of the Company.

- The Board of Directors discussed regularly and quarterly also in the 2018 the management reports on the lending, liquidity, market and operational risks of the Company.

- The Board of Directors dealt also in 2018 with the topics on the implementation of the Remuneration policy.

- The Board of Directors found the management proposals focusing on the amendment of policies delegated to its competence to be sufficiently substantiated in every instance, and approved them while concluding a decision on a minor amendment.

- The Board of Directors paid attention also in 2018 to the audits at the Company conducted by external authorities (Nemzeti Adó- és Vámhivatal [National Tax and Customs Administration], Magyar Nemzeti Bank), and to the development and implementation of the action plan related to the conclusions of the audits. None of the audits have concluded any non-compliance or objection against the work of the Board of Directors.

- The Board of Directors, on one hand via regular business and financial reporting, and on the other hand within the scope of individual agenda items, was informed on the operation of Takarék Kereskedelmi Bank Zrt. on a regular basis, and on its business and financial position, as the Company constitutes to be a majority shareholder of the entity. The Board of Directors, as the body exercising shareholder rights in representation of the Company over Takarék Kereskedelmi Bank Zrt., exercised its rights also in 2018 in accordance with the legal regulations and in terms of Takarék Kereskedelmi Bank Zrt., and within that scope it approved the business report and the annual report of Takarék Kereskedelmi Bank Zrt., and concluded the necessary and relevant resolutions.

- The management provided information on a regular basis to the Board of Directors on the execution of earlier resolutions of the board, and on the internal instructions that enter into force on a group level and on a quarterly basis.

3.1.3. The Board of Directors' cooperation with other organisations

The Board of Directors sustains a cooperative and fair relationship with the Supervisory Board and the management. The CEO of the Company was present at every board meeting where it provided detailed information on current matters concerning the operation of the Company, and gave response to questions arising within the scope of the agenda. The chairman of the Supervisory Board was always invited to the meetings of the Board of Directors, where it was able to elaborate its opinion and recommendations at all times, therefore the shareholders' representation was always ensured during the management of the Company. Nevertheless, the consultations and exchange of ideas between the chairmen of the two bodies, the CEO and its deputy, were regular between the individual meetings.

3.2. Introduction of the work executed by the Supervisory Board in 2018

3.2.1 Summary of the tasks executed by the Supervisory Board

The Supervisory Board of the Company (hereinafter: „SB") operated in 2018 on the basis of pre-approved, biannual work schedules. The work schedule included the individual tasks of the board, and the review of the audits executed by the internal audit team (hereinafter: "Internal Audit") of the Company. In 2018 the SB conducted 4 meetings, whereof 1 was a shared meeting with the Board of Directors, and there were 9 instances when there was decision-making out of the scope of the meeting. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The SB, further to the consideration of the regulations of the Hungarian Civil Code and the Credit Institutions Act, gained information on the business and financial position of the Company on an ongoing basis, and on the most important relevant questions concerning the operation, and on the meetings of the Board of Directors and the decisions concluded by them.

Further to that, the SB reviewed, discussed and evaluated other topics within the scope of its own initiative, such as:

- the implementation of the tasks included in the action plans prepared in consideration of the internal audit reports of 2018,
- the classification of the Company's receivables,
- the concept of the Company's business plan for 2018,
- the quarterly reports of the Company on its lending, market, liquidity and operational risk, and
- the annual report on the activities of the Compliance Directorate/Group.

The SB paid attention also in 2018 to the audits at the Company conducted by the Supervisory Authority and other external authorities, and to the development and implementation of the action plan related to the conclusions of the audits. None of the audits have concluded any non-compliance or objection against the work of the SB.

The SB thoroughly discussed the audits conducted by the Internal Audit team in different topics. The audits were basically reviews with a systematic approach, analysing risks and compliance, or they ensured compliance with the legal regulations. Accordingly, the audits included, among other things, the implementation of the audits defined by the provisions of the EU regulation and directive on the management of lending and operational risks, and on liquidity compliance. They also included compliance audits in terms of the business and operation of the Company, and audits in consideration of the compliance with the resolutions of the Magyar Nemzeti Bank.

The Internal Audit department, in accordance with the regulations of the Credit Institutions Act, regularly informed the Supervisory Board and the Company's management about the results of conducted investigations and the implementation of action plans prepared as a response to the conclusions of the internal audits. The Internal Audit team provided information on the operation of the control functions, on the revealed deficiencies impacting the achievement of the objectives of the Company as well as its performance.

The SB paid particular attention to the Company to have a comprehensive and efficient control system. The internal audit system, earlier approved by the SB, was operational in 2018 on group level of the Takarék banking group, operating in accordance with the relevant legal regulations, the Recommendations on Responsible Corporate Governance and the Authority's recommendation on operating inner lines of defense.
The Internal Audit team has its own medium term strategic objectives until the end of 2022, approved by the SB. An attachment of this is the risk map and the audit universe serving as the fundamental basis of the Internal Audit team's planning. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors ("IIA") – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.

The Supervisory Board discussed and approved in 2018 the information about the implementation of the directly applicable regulation on the Remuneration Policy.

Member of the Company's Audit Committee, Dr. ANTAL Kadosa resigned from his membership of the Supervisory Board on 19 April 2018 but in order to sustain the operability of the Supervisory Board and the Audit Committee his membership terminated on 1 August 2018. At the Company's general assembly of 27 April 2018 GÖRÖG Tibor was elected into the Supervisory Board and the Audit Committee, his supervisory permission entered into force on 15 October. Until the member number of the Audit Committee was reached, its tasks were fulfilled by the Supervisory Board. The chairman position of the Audit Committee was occupied by Dr. HARMATH Zsolt during the year, a further member is PÓRFY György.

3.2.2. The operation of the Supervisory Board

The meetings' agenda mainly consisted of written reports and proposals. The board members had no formal division of labor. The members - according to their different professional competence and experience - represented different points of view during the evaluation of certain inquiries' results.

3.2.3. The Supervisory Board 's cooperation with other organisations

The Supervisory Board was working together with the Board of Directors, management and the Company's auditor in 2018 continuously, objectively and successfully. The chairman of the SB participates in board meetings as a constant guest, where he had the opportunity to explain his point of view representing the SB.

The CEO and/or his deputy CEO participated in every board meeting, informed the board members appropriately and gave detailed answers to their questions.

Consultations and discussions between the Board of Directors, the chairman of SB and the CEO were provided even between meetings.

The auditor participated in the SB's meetings as an constant guest, where he supported the board's work with his professional observations if needed.

4. Presenting the internal control system, evaluating its operation in 2018

The internal control system was established in 2018 on the level of the bank group in accordance with the relevant legal regulations, with Recommendations on Responsible Corporate Governance and with recommendations on operating inner lines of defense by MNB. The internal control system contains elements of responsible internal governance, risk management, compliance function, as part of the internal control system the control that is built in work procedures, management control and independent internal control function.

The Company's management unites under responsible corporate governance the activities of the organisational units representing control function elements, informs about compliance with principles, expects reports and in its decisions certain control functions' statements and experiences are reflected.

4.1. Summary of risk management principles

Takarék Jelzálogbank (Takarék Mortgage Bank) and its subsidiary, Takarék Kereskedelmi Bank (Takarék Commercial Bank) are members of the Integration Organisation of Co-Operative Banks (SZHISZ) and the group led by the Takarékbank Zrt. (hereinafter MTB Zrt, MTB).

The Integration Organisation, the Magyar Takarékszövetkezeti Bank (Bank of Hungarian Savings Co-operatives) as the Integration's central bank and the member credit institutions are liable for each other's obligations jointly and severally, regardless of the date of their incurrence.

The Integration is exempt from the individual application of the provisions of Part Two-Eight of the regulation No 575/2013 of the European Parliament and of the Council on prudential requirements, these shall be fulfilled consolidated, collectively by the group led by the Takarékbank.

The Takarékbank as the Integration's central bank controls the credit institutions and companies that are managed consolidated by the point of view to fulfil the prudential requirements on consolidated basis in order to reach the Integration's strategic aims. Accordingly, it ensures that the risk management principles, methods, risk assessment, measurement and control procedures are unified and harmonized within the Integration and meet the legal requirements. Integration members make their own risk management decisions independently in accordance with the Integration's principles, regulations and within the framework set for the Integration and its members.

The Integration's business goals are defined and reached by bearing the risk appetite in mind. The risk appetite needs to be harmonised with the financial resources which are available to cover possible losses. Risk management's main aim is to protect the Integration's financial power and good reputation and to contribute to business activities enhancing the shareholders' value.

The boards and committes of Takarék Jelzálogbank discuss regularly the proposals concerning the review and modification of risk measurement and management methods, procedures and the reports presenting risk developments.

Takarék Jelzálogbank and Takarék Kereskedelmi Bank - in accordance with the methods applied by the Takarék Group - from June 30, 2018 calculates the capital requirements for credit risk by standard method, the capital requirement for operational risk by base indicators method based on the approval of Magyar Nemzeti Bank.

4.2. Risk management organisation

The risk management organisations of the Company and its subsidiary, the Takarék Kereskedelmi Zrt. are separated from the business units, their supervisor is the concerned credit institution's deputy CEO.

4.3. Monitoring, feedback

The Company operates elements of inner lines of defense with regard to relevant legal regulations and supervisory recommendations in order to minimalise risks. Accordingly beyond operating the risk management organisation

a) the Company ensures in Takarék Group compliance with principles and regulations of legal regulations, other professional practices that are not equivalent to legal regulations, authority's recommendations, guidelines and decrees and with inner rules (hereinafter: „compliance rules") by the division responsible for compliance (hereinafter: „Compliance Directorate"), prevention of its violation, control and

b) operates the internal control system, the parts of which (management control, that is built in work procedures, management information system and independent internal control function) spread on very institution and activity of the Company, are built in daily activities and can be traced, furthermore they give regular feedback to the relevant management, governance level.

ad a) The compliance funkcion is fulfilled by indepent organisations or persons at the bank group companies, the Compliance Directorate of Takarék Jelzálogbank Nyrt. coordinates and ensures at bank group level the control of bank group members in the case of compliance and the fulfillment of compliance rules. The Compliance Directorate's tasks are regulated by internal orders according to the related supervisory recommendation. The compliance control function is fulfilled by the Compliance Directorate according to the detailed annual work schedule that is approved by the Board of Directors of the Takarékbank.

Aim of its activities is to support - on bank group level, in the Mortgage Bank as well - the organisations' prudent, reliable, efficient operation in compliance with legal regulations and to assist in the organisation's smooth and sufficient operation, to maintain trust in the institution, furthermore to help group members avoiding legal sanctions (supervisory, competition law, compensation, etc.), great financial loss and reputational damage.

The compliance tasksof 2018 were executed on bank group levelin2018with 15 (fifteen) colleaguesin employment status.

The Money Laundering Prevention Division of the Compliance Directorate supports with a transaction analyser and filtering software the modern and efficient money laundering prevention system, which reveals and lowers the current and future client risks, hereby supports risk management and business procedures too.

The Internal Control was notified about the contact person responsible for the so called consumer protection, which function and related tasks are fulfilled by the Compliance Directorate's Consumer Protection Division with its employees responsible for consumer protection tasks.

The Compliance Directorate's activities were reported as needed andwith a frequency determined by the related internal rules to the Secretaryand to the bank group members' Board of Directors and Supervisory Board.

ad b) Elements of control and management control built in work procedures were included in job descriptions and current procedures, the application principles were included in internal orders, organisational and operational regulations about control systems. The application principles were established in order to support the Company's efficient operation, reaching the Company's goals, the operation in compliance with legal regulations and the revealance of possible risks with providing appropriate solutions to them.

An integral part of internal control is the independent internal control organisation.

The independence of the Bank's internal control organisation is ensured by the relevant regulations because according to these, the internal control/internal auditor can not be entitled to any other position than controller and can not participate in bank procedures, decisions. The annual work schedule of Internal Control is approved by SB, further control tasks can only be determined by the SB and the Head of Internal Control and in agreement with the SB, the Company's CEO and managing director. The Supervisory Board is managing the internal audit organisation. The direct management of internal audit activities is provided on bank group level, the methodical guidance through SZHISZ. The head of the Company's Internal Control has reporting obligations to the SB.

The internal control informed the Supervisory Board and the Company's management about the results of conducted investigations according to regulations of Credit Institutions Act. The Company's Internal Control reports to the SB about its activity and informs about control function operations and revealed deficiencies. The Internal Control is continuously monitoring and controlling the fulfillment of measures to eliminate the revealed deficiencies and regularly reports about it to the SB and the Company management. As the Company joined to the Integration Organisation of Co-Operative Banks, the Company's internal control organisation had an obligation to data reporting towards MTB Zrt's Internal Control, its base is to be applied obligatory by the Company and is part of MTB Zrt's internal control regulation system for the Integration.

The Internal Control's activity planning and its fulfillment is based on risk analysis, which analyses and examines the whole scale of business procedures. The Internal Control had in 2018 an internal control strategy (with long-term control plan), internal control regulation and a manual to support internal control tasks, a methodology of risk assessment and examination results, regulations for the reporting and information system, all approved by the SB. Taking all these into account, it prepares the Internal Control's annual work schedule which is afterwards approved by the SB. Taking its competency into account, it has access to all information and documents needed for the examinations.

The Internal Control's main task of 2018 was to support the Company's and Takarék Group's strategic goals, proper operation, the control system's operation, especially the performance and compliance of credit and refinance activities and to meet the expectations of the Company's managers and control committees through general and specific examinations, according to experiences from previous years' examinations, adjusting to the market environment. A special task and aim was to review the compliance with the legal framework in practice, to lower the risks and support proper operation at bank group members. A further aim was to reveal the deficiences in the field of meeting the requirements of control built in work procedures and of manager control, to eliminate them with the efficient functionality and operation of control systems, and to have feedback in a relatively short period of time in case of a new activity, work procedure or product in order to handle deficiences and risks efficiently.

4.4. The auditor's activities

The Company's auditor for the financial year 2018 was Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (with registered office at H-1068 Budapest, Dózsa György út 84/C.; registration number: 01-09-071057; chamber of commerce member no: 000083; registration number as a qualified financial institution at the Authority: T-000083/94; hereinafter: „Auditor"). In the name of the Auditor the audit tasks were completed by HORVÁTH Tamás (mother's name: GRÓSZ Veronika; place and date of birth: Budapest, 08.03.1969.; place of residence: H-1028 Budapest, Bölény utca 16.; chamber of commerce member no: 003449; registration number as a qualified financial institution at the Authority: E003449; hereinafter: „natural person providing audit").

The Deloitte Könyvvizsgáló és Tanácsadó Kft. audited in 2018 beyond performing the annual auditing assigment the data of the prospectus in connection with the marketing of the Company's mortgage deeds according to practices.

In 2018, the Deloitte Könyvvizsgáló és Tanácsadó Kft., in addition to the above, also audited the opening balance sheet of IFRS as of January 1, 2019."

The Auditor completed his assigments according to the contract and was confirmed by the Company.

5. Presenting the Company's publication policy and insider trading policy

5.1. The Company's publication policy

The Company's Board of Directors attaches great significance amongst the requirements of responsible corporate governance to the transparency of Company operations because the Company's publication policy affects its reputation. Information that reflects efficient operations authentically has strategic importance, if it enhances shareholders' and other concerned parties' trust towards the Company.

The Company has to fulfill every announcement and publication obligation in accordance with legal regulations, in a compulsory form until the deadline. The Company has further responsibility beside its publication obligation to prevent suspicion of information misuse against any employee and to provide the same information at the same time for every shareholder by announcing them organised. The management is obliged to ensure that the Company's publication practice is in accordance with the Board of Directors' principles.
The Company ensures that during information publication the information is accurate, obvious and understandable, that business secrets are appropriately protected, secret information is handled right, with appropriate and punctual timing of the publication no unauthorized person can access to the information so that misuse of this information can be prevented and market operators, investors and shareholders have the opportunity to be informed about events in connection with the Company in the frame of regulated and announced procedure at the same time.

The Company's publication policy gives priority to present following facts:

- the Company's main aims;

- the Company's policy in connection with its main activity, its business ethics, its partners, competitors and other concerned parties;
- result of the Company's activity, management;
- the risk factors that affect the Company's operation, management and the Company's risk management principles;
- its solvency margin, the amount of capital requirement,
- remuneration policy,
- the Company's managers, their professional experiences and principles for their remuneration;
- company management practice, structure of the company management system;
- ownership structure.

The principles of information publication in connection with the Company, approved by the Board of Directors are published on the official website of the Company. The Internal Control examines the compliance of publication procedures.

5.2. The Company's insider trading policy

According to the regulation no 596/2014 of the European Parliament and of the Council on market abuse (hereinafter: MAR) the persons discharging managerial responsibilities within the Company as an issuer and in certain cases according to MAR the persons closely associated with them shall notify the Company and the Magyar Nemzeti Bank (Central Bank of Hungary) promptly and no later than three business days after the date of the transaction about transactions conducted on their own account relating to the Company's shares or debt instruments or to derivatives or other financial instruments linked thereto (Article 19. section (1) of MAR). Article 19. section (7) of MAR and the related implementing regulation define the transaction types with obligation to notify. The obligation to notify transactions applies to all transactions once a total amount of EUR 5,000 has been reached within a calendar year. The threshold shall be calculated adding without netting all above mentioned transactions (Article 19. section (8) of MAR).

The Company has a list of all persons discharging managerial responsibilities and persons closely associated with them according to article 19. section (5) of MAR.

A person discharging managerial responsibilities within the Company shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report.

6. Methods of practicing shareholder rightsand presenting the rules in connection with the organisation of the general assembly

6.1. Rules of practicing shareholder rights

The shareholder is entitled to practice his rights in possession of the owner certification defined by the legal regulations on shares and stocks. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. The shareholder needs an entry on the list of shareholders in order to practice his rights in connection with the general assembly.

The shareholder shall practice his rights personally, by a substitute (representative) or by a shareholder substitute defined by the Capital Market Act. According to the Articles of Association members of the Board of Directors and the Supervisory Board and the Company's managers can become representatives if they have clear written voting instructions for every proposal for a decision as substitutes by the party for whom they act. The Company's auditor and the Company's property inspector can not become representatives. The shareholder may assign a substitute who represents him in the general assembly if he sends the form included in the Annex 1 or 2 of the Articles of Association filled out as a private deed to the Company by post or as an electronic document until the end of the work day before the day of the general assembly.

The shareholder is entitled to receive the percentage of the Company's results after tax according to accounting legislation that is ordered to be divided by the general assembly corresponding to the name value of his shares (dividends). Shareholders who are on the Company's shareholders list on the day that is determined by the general assembly's decision on dividend payment are entitled to receive dividends. Between the beginning date of dividend payment and the date of decision on dividend payment has to be a period of 20 work days.

If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.

The shareholder is entitled to participate in general assembly, ask for information and make remarks. The Board of Directors can refuse to provide information if it offends the Company's bank or business secrets. The shareholder has proposal and voting rights provided by his shares.

The shareholder has every minority rights ensured by the Civil Code.

6.2. Summary of general assembly organisation regulations

The supreme body of the Company is the general assembly. The Board of Directors has to call the general assembly at least 30 days before the beginning of the general assembly on places of publication determined by the Articles of Association by a published announcement. Shareholders who notified the Company in writing about their claim, need to be informed in electronic form about the calling of the general assembly.

The key data of the annual and the consolidated annual financial statements of the Company, prepared in accordance with the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board shall be disclosed to the shareholder twentyone days before the date of the general assembly at the latest.

If the general assembly had been convened improperly, then the general assembly may be held and resolutions may be passed as well, however, exclusively in the presence of all shareholders entitled to vote, provided that they grant their consent to hold the general assembly.

The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the general assembly shall not have a quorum, at least ten and at most twentyone days after the original date a second general assembly shall have a quorum in cases of the original agenda regardless the number of participants.

The general assembly can be suspended at most once by the chairman. If the general meeting is suspended, then it shall be continued within thirty days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

12.1. In the general assembly every ordinary share from „A" series with HUF 100, that is hundred Forint name value entitles to one vote and every ordinary share from „C" series with HUF 1000, that is thousand Forint name value entitles to ten votes[1]. The Company like the general assembly performs ownership compliance determined

[1] Owners of shares of „B" series with dividend priority are not entitled to vote and have no voting rights in the general assembly. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with

by the Capital Market Act, stock market regulations and KELER Zrt's regulations which is dated in the period of time between the 7. and 3. stock market days before the general assembly. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the day of ownership compliance and whose name is included in the list of shareholders on the second work day before the beginning day of the general assembly at 18,00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transfering his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

The general assembly makes a decision in cases determined by 12.6 point of the Articles of Association at least by a three-fourths majority of votes (qualified majority, 75 % + 1 vote). In every other cases the simple majority of votes (50% + 1 vote) is needed for decision making. Abstentions are counted as against votes.

The detailed rules on organisation of the general assembly are included in 11-13. points of the Articles of Association.

7. Remuneration Statement

7.1. Remuneration principles for the year 2018

The Remuneration Policy's review was approved by Magyar Takarékszövetkezeti Bank Zrt.'s Supervisory Board by virtue of the Supervisory Board decision No. FB-5/11/2018, by Board of Directors by virtue of the Board of Directors' decision No. IG-5/11/2018, by the Remuneration Committee by way of the Remuneration Committee decision No. JavB-1/2/2018, by the Risk Management Committee by way of the Risk Management Committee decision No. KkB-2/4/2018. on 12 June 2018.
The Remuneration Policy took effect as a directly applicable regulation with No 2/2018, with version number V2.0 for the Integration Organisation of Co-Operative Banks and Takarék Group on 2 July 2018.

Thus, the Remuneration Policy had to be discussed, approved and acknowledged by the Directorates of Cooperative Credit Institutions, including Takarék Jelzálogbank Nyrt. Considering that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementing regulation was necessary. Implementation regulations of the "KM" Annexes of the Remuneration Policy was acknowledged by the Board of Directors of Takarék Jelzálogbank Nyrt. by way of the decision No. 54/2018. (09.26.), while the Supervisory Board acknowledged the same by the decision No. 35/2018. (10.03.).

The essence of Remuneration Policy is summed up in the followings:

Aim of the Remuneration Policy is to

- establish a remuneration system according to the Integration Bank group's medium- and long-term vision
- which is clear, transparent, can be planned exactly for every employee,
- in accordance with the Government Decree 131/2011. (VII. 18.) on proportionality principle.

The basic principle of the Remuneration Policy is to harmonise the Bank group members', the Cooperative Credit Institutions' business goals and the employees' personal goals on long-term.

the voting rights that are connected to ordinary shares of „A" series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

The Remuneration Policy's **scope of subjects** are the following companies:

- Cooperative Credit Institutions
- Members of the Takarék Group
- On behalf of MTB Zrt, the mediators and agents acting according to the investment company law

The Remuneration Policy's **scope of persons** are every manager and employee in employment status of the Integration bank group, beside general regulations 117. § section (2) of Credit Institutions Act, Annex 13 of Collective Investments Act determine special rules in connection with highlighted persons. The Remuneration Policy has an effect on every relevant person according to the Decree No. 2017/565 who perform investment service activities.

Highlighted persons (identified staff)

I. Category: Senior management of the Company
II. Category: Managers with risk-taker, compliance and internal control function
III. Category: Employees who belong to the same remuneration category as the I.-II. categories and whose activities have a major effect on Member Bank's risk-taking

According to the Directive 604/2014 of the European Parliament and to technical standards of quality and quantity criteria on categorising the employees having a great effect on the institution's risk profile, further concerned persons not listed in category I-II.

IV. Category: employees identified on a consolidated level whose activities have great effect on the Integration's risk management but are not identified on group member level in categories I-III.

Highlighted persons have to be identified annually according to the self-assessment of the group member.
The main criteria for identification are not the names of the functions but the tasks and responsibilities connected to the function.

Remuneration types:

1. <u>Basic remuneration elements</u>
   1.1. Base salary
   1.2. Benefits
   1.3. Honorarium
   1.4. Loyalty bonus (maximum 2 months base salary)

2. <u>Performance-based remuneration elements</u>

All other elements of remuneration that fail to meet the criteria listed under basic remuneration shall be considered as performance-based remuneration, especially the bonus, productivity bonus, productivity reward, reward, commission, project commission, 13th month salary, severance payment or the payment of an amount related to a termination of employment contract by mutual agreement.

2.1. <u>Bonus - for key personnel</u>

Bonuses can be awarded to employees who are considered key personnel, the conditions for bonuses is the discretional decision of the employer, the employer is not required to set a bonus.

- **Bonus 1:**
  Indicators related to targeting shall be as follows in case of Member Banks operating as credit institutions:
  - pre-tax profit/loss of the Member Bank

- risk indicators of the Member Bank
- ratio of non-performing loans and changes in the ratio
- compliance to the capital requirements
- changes in the indicator(s) to measure liquidity risk

Indicators related to targeting shall be as follows in case of a Member Bank operating as other than a credit institution
- pre-tax profit/loss of the Member Bank
- additionally minimum two and maximum three indicators of different risks (risk indicators) related to key risks associated with activities

- **Bonus 2:**
  In case of its application, deferral is not required and phantom shares are not applicable.

Amount of bonus, breakdown of targeting

According to section (1) of point 118 of the Credit Institutions Act, the performance-based remunerations cannot be more than 100% of the basic remuneration. Depending on its classification, the amount of performance-based remuneration may be equal to 50–100% of the basic remuneration.

General breakdown of targeting:
- 40% depending on the pre-tax profit/loss of the Member Bank
- 30% depending on risk indicators
- 30% depending on individual indicators

and in case of entities with tasks related to internal control:

- 30% depending on the indicators and performance of the department
- 60% depending on individual indicators and performance
- 10% managerial competences

Eligibility criteria

Employees are eligible to bonuses if they fulfil all of the following criteria:
- The target for the subject year for them was realised,
- They spent at least half of the assessed period in active employment at a Member Bank (except if different requirements are defined in their labour contract),
- They are employed by a Member Bank on the last calendar day of the assessed period and on the day of the payment (the last payment shall be 3 years after the subject year) and were not under any procedure aiming to conclude their employment (resignation, of immediate effect, dismissal initiated by the employer or the employee, mutual agreement). Labour movements between Member Banks shall be regarded as uninterrupted employment from the aspect of the Remuneration Policy.

Payment of bonuses

Assets for bonus payments:

For Bonus 1:
- at least 50% assets related to shares (phantom shares)

- maximum 50% cash

For Bonus 2:

- 100% cash

Payment of bonuses:

For Bonus 1:

Performance-based remuneration for key personnel shall be paid within a three-year period, in the following way:

- first year after the subject year 60%,
- deferral1: second year after the subject year 20%,
- deferral2: third year after the subject year 20%.

For Bonus 2:

- first year after the subject year 100%,

Payment shall be excluded, if

- the capital adequacy ratios are below the level prescribed by law or the internal rules of the integration – in case of Member Banks operating as credit institutions,
- the economic result of the group member in the subject year is loss (except if – in accordance with the preliminary decision of the Supervisory Board – the MTB Zrt Board of Directors, Takarék Jelzálogbank Nyrt. Board of Directors/, Takarék Kereskedelmi Bank Zrt. Board of Directors/, SZH Board of Directors decides otherwise).

Apart from these, payments shall be excluded in case of savings banks if the economic result of any of the savings banks is loss.
Beyond this, bonus payments shall only be made in case the group-level SREP indicator stays above the required amount.

2.2. Productivity bonus

The conditions for productivity bonuses shall be set as the discretional decision of the employer, the employer is not required to set a productivity bonus.
Indicators related to targeting shall be especially the Member Bank's

- pre-tax profit/loss
- profit/loss of the department

The amount of the productivity bonus shall not be more than the 50% of the annual basic remuneration.

2.3. Reward

Rewards shall be awarded based on the evaluation of the individual performance target, or the discretional decision of the employer, as a follow-up recognition of the employee's work, based on an evaluation. Rewards shall be paid in cash.

2.4. Commission

Payments to group members will be made as per the separate policy, from the amount earmarked for dividends in the annual operation plans, after the monthly or quarterly appraisal, in cash.

2.5. Target premiums /project premiums

If working on central programs, (e.g. HUF conversions of loans, consolidation loans, additional work performed during merge) employees may be awarded target premiums and/or project premiums, except for prioritized individuals belonging to Group 1.

2.6. Payouts for members of the Board of Directors who perform their duties within the scope of employment relationship

On the basis of the proposal of the Remuneration Committee, payment of performance-based remuneration for members of the Board of Directors who perform their duties within the scope of employment relationship may be made as per the approval of the Supervisory Board and the subsequent decision of the Board of Directors. If no Remuneration Committee is appointed, decision regarding members of the Board of Directors who perform their duties within the scope of employment relationship shall be made by the Board of Directors after approval of the Supervisory Board. The Board of Directors may not adopt decisions more lenient towards employees than the decision adopted by the Supervisory Board. The Board of Directors may confirm such decisions by making no changes to it or may adopt decisions involving less payout than approved by the Supervisory Board.

Publications regarding remunerations, data disclosure to the Central Bank of Hungary.

The Remuneration Policy of the Integration Bank Group shall be available to all employees of the Member Bank. Member Bank shall be responsible for the publication thereof on its own electronic platform (Intranet) or any other platform customarily used by Member Bank.
The Group publishes its Remuneration Policy annually, and shall perform the Magyar Nemzeti Bank data disclosure regarding basic- and performance-based remunerations in line with said Remuneration Policy, as per the processes and task allocations set forth by the Group's Publication Policy and the Integration's Data Disclosure Policy. Based on the above internal policies, Member Bank shall disclose data to the lead Member Bank and shall ensure that such data are true and correct.

Laying down the principles of Remuneration Policy

MTB Zrt.'s Supervisory Board

- Approval and review of the Remuneration Policy shall be the responsibility of the Supervisory Board.
- Performance evaluation criteria used by the Compliance Department shall be approved by the Supervisory Board in line with the principles laid down in the Remuneration Policy.

MTB Zrt.'s Board of Directors shall be responsible for issuance and implementation of the Remuneration Policy.

Review of the Remuneration Policy

The Group Remuneration Policy shall be reviewed annually, and it shall be issued as a policy with direct effect. Involvement of MTB Zrt.'s controlling officers by MTB Zrt.'s HR Directorate in laying down the principles and implementation of the Remuneration Policy shall be ensured by the annual review process, wherein they comment the rules and processes of remuneration. Commenting will be open to some Cooperative Credit Institute's experts, too.
Within the review process of the Remuneration Policy, the Compliance Directorate shall annually analyze the impacts of the Remuneration Policy to the institute's compliance with the legislation, policies, internal policies and the corporate risk culture. Furthermore, it shall report any identified compliance risk and deviations from the requirements to members of the management- and supervisory boards.
In the Integration, the compliance check of implementation of the Remuneration Policy shall be coordinated by the Integration Organization.
The compliance officer's report on the compliance check shall be discussed by the Member Bank Takarékbank's Board of Directors, Supervisory Board, Audit Committee and Remuneration Committee, and if necessary, they present their suggestions to amend the Remuneration Policy.
MTB Zrt.'s compliance function shall verify compliance with the regulations, policies, procedures and internal rules, central or group-level provisions.
MTB Zrt.'s compliance officer shall ensure that the remuneration policies of the group as a whole and of each member are consistent and harmonized, including identification processes and adequate implementation on a consolidated, sub-consolidated and individual basis.

7.2. Remuneration Statement for the Year 2018

1/ Members of the Management

Effective date
The Remuneration Policy No. 2/2018 shall take effect on 2 July 2018.

The Policy's review was approved by MTB Zrt.'s Supervisory Board by virtue of the Supervisory Board decision No. FB-5/11/2018, by MTB Zrt.'s Board of Directors by virtue of the Board of Directors' decision No. IG-5/11/2018, by the Remuneration Committee by way of the Remuneration Committee decision No. JavB-1/2/2018, by the MTB Zrt.'s Risk Management Committee by way of the Risk Management Committee decision No. KkB-2/4/2018 on 12 June 2018.
For the Cooperative Credit Institutions and Takarék Csoport, the Remuneration Policy took effect on 2 July 2018 as a directly applicable regulation No. 2/2018, with the version No. V2.0.

Thus, the Remuneration Policy had to be discussed, approved and acknowledged by the Directorates of Cooperative Credit Institutions, including Takarék Jelzálogbank Nyrt. Considering that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementing regulation was necessary. Implementation regulations of the "KM" Annexes of the Remuneration Policy was acknowledged by the Board of Directors of Takarék Jelzálogbank Nyrt. by way of the decision No. 54/2018. (09.26.), while the Supervisory Board acknowledged the same by the decision No. 35/2018. (10.03.).

2/ Officers

Members of the Company's Board of Directors and Supervisory Board received the remuneration established during the annual Shareholders' Meeting, the extent of which was unchanged since 2007.

Statement of Responsible Corporate Governance on Compliance with the Recommendations on Responsible Corporate Governance

As part of the Responsible Corporate Governance Report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (registered seat: H-1082 Budapest, Üllői út 48.; Company register No: 01-10-043638; hereinafter: „the Company") represents by submission of the following questionnaire on the extent the Company applied the recommendations set out in the specific points of the Responsible Corporate Governance Suggestions issued by Budapesti Értéktőzsde Zrt. (Budapest Stock Exchange).

Level of compliance with the Suggestions

The Company shall indicate whether or not it applies the given recommendation. For negative answers, the Company shall provide information about the reasons the recommendation is not followed.

1.1.1. Within the Company, an organizational unit engaged in investors' account management is operating or an individual is appointed to maintain relations with investors.
Yes No
Explanation:

1.1.2. The Company's articles of association is available on the Company's website.
Yes No
Explanation:

1.1.4. If the Company's articles of association allows shareholders to exercise their rights while absent, the Company has published the methods and conditions of the same on its website, including the necessary documents.
Yes No
Explanation:

1.2.1. The Company has published a summarizing documents on its website regarding the rules of conduct of general assemblies and exercising shareholders' rights.
Yes No
Explanation:

1.2.2. The Company published the day of establishment of the scope of individuals entitled to participate in the given Company event (cutoff date) by indicating the exact date. Furthermore, the Company published the date of the last day of trading of shares entitling invitees to participate in the Company event.
Yes No
Explanation:

1.2.3. The Company convened its general assembly in a way that allowed for the participation of the largest number of shareholders possible.
Yes No
Explanation:

1.2.6. The Company did not hinder shareholders to send separate representatives for each safekeeping account regarding any general assembly.
Yes No
Explanation:

1.2.7. For proposals regarding each agenda item, in addition to the decision proposed by the Board of Directors, the opinion of the Supervisory Board was also available for shareholders.
Yes No
Explanation:

1.3.3. The Company did not hinder participant shareholders' rights to receive information, to make comments or motions, and the Company did not condition these to any circumstance or requirement, except for measures taken for the due and intended conduct of the general assembly.
Yes No
Explanation:

1.3.4. The Company ensured compliance with the principles of notification and publication under the stock exchange rules by answering questions arising at the general assembly.
Yes No
Explanation:

1.3.5. The Company published on its website the answers to questions arising at the general assembly that could not be adequately answered by the representatives of the Company's bodies or the auditors present at the meeting within three business days, or published its notification regarding the reasons of abstention from answering.
Yes No
Explanation: In 2018, no such questions arose.

1.3.7. The Chairman of the general assembly ordered a recess or proposed suspension of the general assembly, if, regarding the agenda items, new motions or proposals were received, so that shareholders did not have opportunity to familiarize with such motions or proposals in advance.
Yes No
Explanation: In 2018, no such motions or proposals were received.

1.3.8.1. The Chairman of the general assembly did not apply joint voting procedures for decisions in connection with appointing or recalling members of the Supervisory Board.
Yes No
Explanation:

1.3.8.2. For members of the Supervisory Board appointed by shareholders' support, the Company provided information regarding the person of the supporting shareholder(s).
Yes No
Explanation:

1.3.9. Prior to discussing agenda items regarding the amendment of the articles of association, the general assembly adopted a separate decision whether the meeting intends to decide regarding each clause of the articles of association separately or by joint decisions, grouping the cases by certain criteria.
Yes No
Explanation: The general meeting always decides about amendments of the articles of association in a joint decision, irrespective of the number of clauses the amendment will affect. The proposal associated with the agenda item details the clauses affected by the amendment and the content of the amendment.

1.3.10. The Company published the Minutes of the general assembly containing the decisions, the details of the decision proposals and/or any significant questions and answers regarding such proposals within 30 days of the general assembly.
Yes No

Explanation:
1.5.1.1. The Directorate/Board of Directors and/or a committee set up out of the members of the Directorate/Board of Directors laid down guidelines and rules regarding the appraisal and remuneration of the work performed by the Directorate/Board of Directors, the Supervisory Board and the Management.
Yes <u>No</u>
Explanation: The Remuneration Principles were defined by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules. The regulations are compulsory to all Cooperative Credit Institutions, Takarék Jelzálogbank Nyrt. included. The Board of Directors approved implementation.

1.5.1.2. During the establishment of the performance-based remuneration of members of the Management, the members' responsibilities and the extent of their liabilities were considered, along with the extent the Company achieved its goals and the Company's economic-financial situation.
<u>Yes</u> No
Explanation:

1.5.1.3. Remuneration guidelines established by the Directorate/Board of Directors, and/or the committee set up from the members of the Directorate/Board of Directors were reviewed by the Supervisory Board.
Yes <u>No</u>
Explanation: The Remuneration Principles were defined by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules. The regulations are compulsory to all Cooperative Credit Institutions, Takarék Jelzálogbank Nyrt. included. The Supervisory Board approved implementation.

1.5.1.4. The principles of remuneration (and significant amendments thereof) of members of the Directorate/Board of Directors and the Supervisory Board were approved by the general assembly in a separate agenda item.
<u>Yes</u> No
Explanation:

1.5.2.1. The Directorate/Board of Directors is responsible for the appraisal of the Management's performance and for establishment of their remuneration.
<u>Yes</u> No
Explanation:

1.5.2.2. Limits and changes in such limits of extra remunerations payable for members of the Management were approved by the general assembly in a separate agenda item.
Yes <u>No</u>
Explanation: In 2018, no suggestion was received regarding this issue.

1.5.3.1. The general assembly approved the principles of share-based remuneration policies.
Yes <u>No</u>
Explanation: In 2018, no suggestion was received regarding this issue.

1.5.3.2. Shareholders were informed regarding the details of share-based remuneration policies prior to the general assembly (at least to the extent under Clause 1.5.3).
Yes <u>No</u>
Explanation: In 2018, no suggestion was received regarding this issue.

1.5.4. The Company set up its remuneration system in a way that it doesn't only incent short-term maximalization of share prices.
Yes <u>No</u>

Explanation: The Remuneration Principles are set out by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules. The regulations are compulsory to all Cooperative Credit Institutions, Takarék Jelzálogbank Nyrt. included.

1.5.5. For members of the Supervisory Board, a fixed-amount remuneration system is effective, and it contains no remuneration elements linked to share prices.
Yes **No**
Explanation:

1.5.6. The Company prepared an information bulletin for owners ("Remuneration Statement") containing the remuneration principles of members of the Directorate/Board of Directors, the Supervisory Board and the Management. Said information bulletin contains items and details required by the binding rules of the trade and was submitted to the general assembly. In this remuneration statement, they presented the remuneration of the members of the Directorate/Board of Directors and the Supervisory Board, along with guidelines they base the appraisal of their performance on and establish their remuneration. This information includes the publication of information pertaining to the board-level remuneration of the Directorate/Board of Directors and the Supervisory Board, elaborating on the fixed- and variable elements, extra benefits, and the principles of the remuneration system, including the changes of the latter compared to the previous fiscal year.
Yes **No**
Explanation: The Remuneration Principles are set out by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules. The regulations are compulsory to all Cooperative Credit Institutions, Takarék Jelzálogbank Nyrt. included. Members of the Board of Directors and the Supervisory Board receive a fixed remuneration, subject to the decision of the general assembly.

1.6.1.1. The Company's publication guidelines cover possible electronic- and online publication procedures.
Yes **No**
Explanation:

1.6.1.2. The Company sets up its website by considering the criteria of publication and information of shareholders.
Yes **No**
Explanation:

1.6.2.1. The Company has an internal set of rules covering publications and handling information under Clause 1.6.2 of the Recommendations.
Yes **No**
Explanation:

1.6.2.2. The Company's internal rules also cover the classification of significant incidents in terms of publications.
Yes **No**
Explanation:

1.6.2.3. The Directorate/Board of Directors assessed the efficiency of publication processes.
Yes **No**
Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.2.4. The Company published the result of the review of the publication processes.
Yes **No**

Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.3. The company published its corporate events calendar.
<u>Yes</u> No
Explanation:

1.6.4. The public was informed about the company's corporate strategy, its business ethics and its policies regarding other stakeholders.
<u>Yes</u> No
Explanation:

1.6.5. In the annual report or on the website the company has disclosed information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.
<u>Yes</u> No
Explanation:

1.6.6. The company has published the appropriate information on the work of the members of the Managing Body, the Supervisory Board and the executive management, the evaluation of the said work and the changes of the current year.
<u>Yes</u> No
Explanation:

1.6.7.1. The company has published its Remuneration Principles according to the recommendations defined in point 1.5.
Yes <u>No</u>
Explanation: The Remuneration Principles were defined by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules. The regulations are compulsory to all Cooperative Credit Institutions, Takarék Jelzálogbank Nyrt. included.

1.6.7.2. The company has published its Remuneration Statement according to the recommendations defined in point 1.5.
Yes <u>No</u>
Explanation: The Remuneration Principles were defined by the Board of Directors of MTB Zrt as Central Bank, issued in the form of directly applicable rules.

1.6.8. The company disclosed its risk management guidelines, and provided information on the system of internal controls, as well as information about major risks and relevant management principles.
<u>Yes</u> No
Explanation:

1.6.9.1. The company disclosed its guidelines governing insiders' trading in the company's securities.
<u>Yes</u> No
Explanation:

1.6.9.2. The company published in the annual report or otherwise ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.
<u>Yes</u> No
Explanation:

1.6.10. The company disclosed any relationship between members of the Managing Body, the Supervisory Board and the executive management with a third party, which might have an influence on the operations of the company.
Yes No
Explanation: There were no such cases in 2018.

2.1.1. The company's articles of association contains unambiguous provisions regarding the duties and competences of the General Meeting and the Board of Directors.
Yes No
Explanation:

2.2.1. The Managing Body regulates the rules of procedure defining all procedures and protocols for the preparation and holding of meetings and the tasks relevant to adopted resolutions, as well as other matters related to the operation of the Managing Body.
Yes No
Explanation:

2.2.2. The company disclosed the procedure for nominating members of the Managing Body and the remuneration principles.
Yes No
Explanation:

2.3.1. The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation, competence and duties, as well as the administrative procedures and processes which the Supervisory Board follows.
Yes No
Explanation:

2.4.1.1. The Managing Body and the Supervisory Board held meetings regularly, at times designated in advance.
Yes No
Explanation:

2.4.1.2. The rules of procedure of the Managing Body and the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.
Yes No
Explanation:

2.4.2.1. Board members had access to the proposals of a given meeting at least five days prior to the board meeting.
Yes No
Explanation:

2.4.2.2. The company ensured the orderly course of meetings and that minutes were recorded of the meetings, and the orderly management of the documentation and resolutions of the Managing Body and the Supervisory Board.
Yes No
Explanation:

2.4.3. The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.
Yes No

Explanation:

2.5.1. The nomination and election of the members of the Managing Body and the Supervisory Board took place in a transparent way, information on candidates was made public in due time prior to the General Meeting.
<u>Yes</u> No
Explanation:

2.5.2. The composition of boards and the number of members complies with the principles specified in point 2.5.2 of the Recommendations.
<u>Yes</u> No
Explanation:

2.5.3. The company ensured that newly elected board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members.
<u>Yes</u> No
Explanation:

2.6.1. At regular intervals (in connection with the preparation of the CG Report) the Board of Directors/Supervisory Board requested a confirmation of their independent status from those members considered independent.
<u>Yes</u> No
Explanation:

2.6.2. The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the management's work.
<u>Yes</u> No
Explanation:

2.6.3. The company disclosed on its website the guidelines on the independence of the Board of Directors/Supervisory Board, as well as the criteria applied for assessing independence.
Yes <u>No</u>
Explanation: The company has not disclosed a single document on the independence of the members of the Board of Directors and the Supervisory Board, but the rules of procedures of both the Board of Directors and the Supervisory Board includes the conflict-of-interest and the independence criteria in connection to its members. Both rules of procedures are disclosed on the website of the company

2.6.4. The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the five years prior to his nomination, not including the cases providing for employee involvement.
<u>Yes</u> No
Explanation:

2.7.1. Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a business or personal relationship to them) had such a significant personal stake relevant to a transaction of the company (or the company's subsidiary) that would make them not independent.
<u>Yes</u> No
Explanation:

2.7.2. Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted and approved according to general rules of practice of the company, but with stricter transparency rules in place.

Yes **No**
Explanation:

2.7.3. Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.
Yes **No**
Explanation:

2.7.4. The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitors compliance with those guidelines.
Yes **No**
Explanation:

2.8.1. The company created an independent Internal Audit function which reports to the Audit Committee/Supervisory Board.
Yes **No**
Explanation:

2.8.2. The Internal Audit has unlimited access to all information and documents necessary for the inspections.
Yes **No**
Explanation:

2.8.3. Shareholders were informed of the operation of the Internal Safeguards' system.
Yes **No**
Explanation:

2.8.4. The company has a compliance function.
Yes **No**
Explanation:

2.8.5.1. The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.
Yes **No**
Explanation:

2.8.5.2. The appropriate body of the company and the General Meeting received information on the efficiency of risk management procedures.
Yes **No**
Explanation:

2.8.6. The Managing Body developed the risk management policy appropriate for the industrial and corporate peculiarities with the cooperation of the relevant fields.
Yes **No**
Explanation:
2.8.7. The Managing Body formulated the principles regarding the system of internal controls ensuring the management and control of risks relevant to the company's business activities, as well as achieving the performance and profit goals set by the company.
Yes **No**
Explanation:

2.8.8. Functions of the internal control systems have reported at least once to the eligible body on the operation of internal control mechanisms and corporate governance functions.
Yes **No**
Explanation:

2.9.2. The Managing Body invited the company's auditor to participate in the meetings debating the financial report with consultative powers.
Yes **No**
Explanation:

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No).

1.1.3. The company's articles of association render possible that the shareholder practise his right to vote even when absent.
Yes No
Explanation:

1.2.4. The company has set the time and place of General Meetings proposed by shareholders with consideration to the shareholders' proposal.
Yes No
Explanation: There were no General Meetings proposed by shareholders held in 2018.

1.2.5. The voting procedures applied by the company ensure the unambiguous, clear and fast declaration of the results, and in case of electronic vote, the validity and reliability of it.
Yes No
Explanation:

1.3.1.1. The Managing Body and the Supervisory Board were represented at the General Meeting.
Yes No
Explanation:

1.3.1.2. The chairman of the General Meeting provided adequate information on the possible absence of the Management Body or the Supervisory Board before discussing the agenda in detail.
Yes No
Explanation:

1.3.2.1. The company' articles of association do not prevent that at the initiation of the chairman of the Managing Body of the company, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda, if they assume that the presence and contribution of the given party is necessary, or it facilitates the information of shareholders, the decision-making process of the general meetings.
Yes No
Explanation:

1.3.2.2. The company' articles of association do not prevent that at the initiation of the company's shareholders requesting the amendment of the agenda, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda.
Yes No
Explanation:

1.3.6. The company's Annual Report complying with the Accounting Act includes a short, straightforward and illustrative summary for the shareholders, containing the important information relevant to the annual operation of the company.
Yes No
Explanation:

1.4.1. According to point 1.4.1., the dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.

Yes **<u>No</u>**
Explanation: The company did not pay dividend in 2018.

1.6.11. In compliance with the provisions of point 1.6.11, the company also prepared and released its disclosures in English.
<u>Yes</u> **No**
Explanation:

1.6.12. The company informed its investors regularly, but at least on a quarterly basis, on its operations, financial situation and the assets and liabilities of the company.
Yes **<u>No</u>**
Explanation: In compliance with the provisions of the Credit Institutions Act, the company releases semi-annual reports.

2.9.1. The company regulates the internal procedures to be followed when employing an external advisor or an outsourced service of theirs.
<u>Yes</u> **No**
Explanation:

PROPOSAL
TO ITEM NO. 8. OF THE AGENDA

●

AMENDMENT OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Proposal:

1. The amendment of the articles of association of Takarék Mortgage Bank Co. Plc (hereinafter referred to as: “Company”; the articles of association hereinafter referred to as: “Articles of Association”) is an exclusive power of the general meeting pursuant to Act V of 2013 on the Civil Code (“Civil Code”) and Section 12.3(a) of the Articles of Association.

2. According to the Civil Code 3:17. (4), the decision-making body shall hold its meetings at the seat of the legal person. However, the Civil Code 3: 4. § (2) of the Act allows the members of the legal person or its founders to deviate from the rules of the Civil Code in the statutes of the legal person, while complying with the restrictions set forth in the law, by regulating the relationship between the legal person and the legal person. Considering the large number of shareholders of Takarék Mortgage Bank Co. Plc., it is not advisable to convene the general meeting at the seat of the Company. In the light of the foregoing, the Board of Directors of the Company makes a proposal in Section 11.3. as follows:

„*11.3.* The General Shareholders’ Meeting shall be convened by the Board of Directors, with the exceptions stipulated by law or these Statutes, - ***to the location defined in the invitation sent by the Board of Directors, or to the seat of the Company in the absence of a decision by the Board of Directors*** - if it is considered necessary for the sake of proper operation of the Company, or if it is required by the Statutes or any piece of legislation. Based on the Integration Act, the Board of Directors shall be obliged to convene the General Shareholders’ Meeting of the Company, as soon as possible, if the Board of Directors of the Integration Organization or the Board of Directors of the Central Bank initiated the holding of the General Shareholders’ Meeting for purpose of renewing the executive officers.”

3. Having regard to the fact that the Articles of Association do not contain any amendments, the entry into force of which is subject to the authorisation of the Central Bank of Hungary, the Board of Directors of the Company proposes that the amendment of the Articles of Association enter into force on the day when it is adopted by the general meeting of Takarék Mortgage Bank Co. Plc.

The Supervisory Board indicated that it agreed with the proposal of the Board of Directors.

Proposed Resolution:

1. *The General Meeting (“General Meeting”) of Takarék Mortgage Co. Plc. (“Company”) shall approve the amendment of the Articles of Association of the Company as follows, that the Articles of Association consolidated with the amendments shall enter into force on the date of acceptance by this General Meeting.*

   „11. General Shareholders’ Meeting

   „11.3. The General Shareholders’ Meeting shall be convened by the Board of Directors, with the exceptions stipulated by law or these Statutes, - ***to the location defined in the invitation sent by the Board of Directors, or to the seat of the Company in the absence of a decision by the Board of Directors*** *- if it is considered necessary for the sake of proper operation of the Company, or if it is required by the Statutes or any piece of legislation. Based on the Integration Act, the Board of Directors shall be*

obliged to convene the General Shareholders' Meeting of the Company, as soon as possible, if the Board of Directors of the Integration Organization or the Board of Directors of the Central Bank initiated the holding of the General Shareholders' Meeting for purpose of renewing the executive officers."

2. *The General Shareholders' Meeting invites and authorizes the Board of Directors to submit this resolution and the Articles of Association consolidated with the amendments to the Court of Registration within the statutory deadline.*

Statutes

of

Takarék Mortgage Bank Co. Plc.

Effective date: 25th of April, 2019

Törölt: 27th

Törölt: September

Törölt: 8

STATUTES

PREAMBLE

Takarék Mortgage Bank Co. Plc. (hereinafter as: the "Company"), as a member of the Integration Organization of the Cooperative Credit Institutions (hereinafter as: the Integration Organization) and as a shareholder of the Bank of Hungarian Savings Co-operatives Pte. Ltd., pursues its activities as a cooperative credit institution, as defined in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter as: the "Integration Act"), in accordance with the provisions of its operating license.

Törölt: FHB

The Integration Organization, the Bank of Hungarian Savings Co-operatives Pte. Ltd. and the cooperative credit institutions (hence, the Company as well) defined under the decision of the Central Bank of Hungary (hereinafter as: the "Supervisory Authority" or „MNB") are subject to joint supervision.

For matters not regulated under these Statutes, the provisions of the Integration Act, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter as: the Credit Institutions Act), Act CXX of 2001 on the Capital Market (hereinafter as: the Capital Market Act), Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter as: the Investment Firms Act"), Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter as: the "Mortgage Banks Act"), and Act V of 2013 on the Civil Code (hereinafter as: the "Hungarian Civil Code") shall be applied.

CORPORATE NAME, REGISTERED OFFICE AND SCOPE OF ACTIVITIES OF THE COMPANY

1. Corporate name:

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság

Foreign corporate names of the Company:

In English:	Takarék Mortgage Bank Co. Plc
In German:	Takarék Hypothekenbank AG

Abbreviated corporate name of the Company: Takarék Jelzálogbank Nyrt.

2. Registered office of the Company:

1082 Budapest, Üllői út 48.

3. Type of the Company:

The Company operates as a public company limited by shares.

According to its position taken among financial institutions, the Company is a mortgage credit institution, as specialized credit institution.

4. Sphere of activities of the Company:

4.1. The Company shall perform its financial service activities as per Section 3 subsection (1) of the Credit Institutions Act and the auxiliary financial services as per Section 3 subsection (2) of the Credit Institutions Act, as well as its activities as per Section 7 subsection (3) of the Credit Institutions Act in line with and subject to the conditions stipulated under the Credit Institutions Act, the Investment Services Act, the Mortgage Banks Act and the other legislation related to financial service activities, based on the license granted by the Supervisory Authority.

4.2. The activity (activities) of the Company carried out in HUF and/or foreign exchange, in line with Resolution no. 345/1998 of the Supervisory Authority, is/are as follows:

Core activity:

6492’08 Other lending

Within the above sphere of activities the Company carries out exclusively the following activities pursuant to Section 3 of Act XXX of 1997 on the Mortgage Banks and Mortgage Bonds, namely:
- acceptance of repayable liquid assets from the public, not including deposit collection,
- provision of cash loan secured by mortgage established on a real property located on the territory of Hungary or a member state of the EEA,
- provision of loans without the stipulation of mortgage in the case of assumption of joint and several suretyship by the state,
- assumption of suretyship and bank guarantee, and other banker’s commitments.

Other business:

6499’08 Other financial mediation not included elsewhere, namely:
- trading activities in respect of foreign exchange swap transactions serving to cover the exchange risk of interest rate swap transactions and the foreign exchange sources thereof.

6619’08 Other activities auxiliary to financial services

5. Field of operation:

Within the frames of the legal rules in force and the relevant licenses, the Company is entitled to carry out its activities or certain elements thereof, and to establish branch institutions or representative offices both in Hungary and abroad.

6. Term:

The Company has been established for an open-ended period. The business year of the Company shall be the same as the calendar year, with the provision that in the year of foundation of the Company, the business year shall commence on the day of registration of the Company into the Companies Register.

REGISTERED CAPITAL AND SHARES OF THE COMPANY, THE RIGHTS AND OBLIGATIONS OF THE SHAREHOLDERS

7. Registered capital

7.1. The registered capital of the Company is HUF 10,849,030,000 that is Ten billion Eight hundred and forty-nine million Thirty thousand Hungarian forints, consisting of cash contribution only.

7.2. With the exception of the increase of the registered capital through the offering of new shares, the Company may also increase its registered capital even if the nominal value of not all of its shares issued earlier has been fully paid yet.

7.3. The General Shareholders' Meeting of the Company may resolve to authorize the Board of Directors to increase the registered capital. The authorization shall stipulate the maximum amount (approved capital) with which the Board of Directors may increase the Company's registered capital in total, over a period of not more than 5 years. When deciding on the authorization to increase the registered capital, the General Shareholders' Meeting shall also decide on the possible exclusion or limitation of the exercise of the preferential subscription right set forth in Article 7.5.

The authorization granted to the Board of Directors to increase the Company's registered capital at the same time authorizes and obliges the Board of Directors to take the decisions relating to the capital increase that would otherwise, by law or by the Statutes, be the competence of the General Shareholders' Meeting, including the amendment of the Statutes necessary because of the capital increase.

7.4. Upon the increase of the registered capital, the General Shareholders' Meeting or the Board of Directors may simultaneously also decide that the person(s) designated in the resolutions of the General Shareholders' Meeting or the Board of Directors shall solely be entitled to receive the new shares or, in the case of a conditional registered capital increase, the convertible bonds to be offered (private increase of registered capital).

7.5. In the course of raising the Company's registered capital by cash contribution, the shareholders of the Company (and, within those, first of all the shareholders possessing shares belonging to the same share series as the newly issued shares) followed by the owners of convertible bonds shall have preferential subscription rights specified in the resolution of the General Shareholders' Meeting; in the case of a capital raise implemented within the competence sphere of the Board of Directors, these conditions are specified in the resolution issued by the Board of Directors.

Through the channels determined in the Statutes the Company shall inform the shareholders and holders of convertible bonds of the possibility and way of exercising the preferential rights to receive the shares including the nominal value and par value of shares that can be obtained in this fashion, as well as of the first and last day of the 15 days period available to exercise such rights.

Upon the written proposal of the Board of Directors, the General Shareholders' Meeting may, however, exclude or restrict the exercising of the preferential subscription right. The reasons for the motion aimed at the exclusion of the preferential subscription right, as well as the planned issue value of the shares shall be indicated in the proposal. The Board of Directors shall put the discussion of the proposal on the agenda in the invitation convening the General Shareholders' Meeting, as part of the item on the agenda concerning the increase of the registered capital, but prior to that. The General Shareholders' Meeting may not adopt a valid resolution on the increase of the registered capital unless a decision is made on the matter of exclusion or restriction of the exercising of the preferential subscription right. The Board of Directors shall make sure that the resolution of the General Shareholders' Meeting is submitted to the Court of Registration and at the same time is published in the places of publication specified in the Statutes.

8. Shares

8.1. he registered capital of the Company is embodied by 80,163,440 pieces (say Eighty million One hundred and sixty-three thousand Four hundred and forty) of registered shares at the face value of HUF100 (say One hundred Hungarian forints) each, and 2,832,686 pieces (Two million Eight hundred and thirty-two thousand Six hundred and eighty-six) of registered shares with the face value of HUF 1,000 (say One thousand Hungarian forints) each.

8.2. Division of the registered capital in the breakdown by share types and share classes:

- 66,000,010 (say Sixty-six million and ten) pieces of series "A" ordinary shares at nominal value of HUF 100 (say One hundred forints) each, of a total nominal value of HUF 6,600,001,000 (say Six billion Six hundred million One thousand forints,
- 14,163,430 pieces (say Fourteen million One hundred and sixty-three thousand Four hundred thirty) of Series "B" preference (dividend preference) shares at the face value of HUF 100 (say One hundred Hungarian forints) each, of a total face value of HUF 1,416,343,000 (say One billion Four hundred and sixteen million Three hundred and forty-three thousand Hungarian forints) and at the issue value of HUF 10.155.179.310 (say Ten billion One hundred and fifty-five million One hundred and seventy-nine thousand Three hundred ten Hungarian forints) each, and 2,832,686 pieces (say Two million Eight hundred and thirty-two thousand Six hundred and eighty-six) of Series "C" ordinary shares at the face value of HUF 1,000 (say One thousand Hungarian forints) each, of a total face value of HUF
- 2,832,686,000 (say Two billion Eight hundred and thirty-two million Six hundred and eighty-six thousand Hungarian forints) and at the issue value of HUF 20,310,358,620 (say Twenty billion Three hundred and ten million Three hundred and fifty-eight thousand Six hundred and twenty Hungarian forints) each.

8.3. The shares of the Company are produced as dematerialized securities in line with the legislative provisions on securities.

9. Transfer and registration of shares

9.1. The shares of the Company may be freely transferred within the scope of the legal rules in force and the present Statutes; they may only be acquired and transferred in the manner defined in a legal rule, solely through debiting and crediting onto securities accounts.

9.2. The Company shall keep a register of shareholders in accordance with the currently effective legislation, these Statutes and the applicable internal regulations. The owner's quality of shareholders is certified by the entry in the register of shareholders of the Company; accordingly, a shareholder may exercise its shareholder's rights towards the Company only if it has been entered in the register of shareholders. The register of shareholders shall be kept by the Board of Directors and the Board of Directors has the right to commission the person(s) defined by law to keep the register of shareholders, in which case the fact of commissioning and the personal data of the commissioned person must be published.

9.3. The Company shall keep the register of shareholders according to the relevant provisions of the Hungarian Civil Code and the Capital Market Act.

9.4. The Board of Directors of the Company, or its agent appointed in accordance with the legal rules applicable to securities, shall keep a register of shareholders, which contains at least the following data:

- name of shareholders and/or their proxies (nominees), as well as address, mother's name and citizenship in the case of natural persons, and registered office in the case of legal entities (e.g. business associations) and individual undertakings;
- if a share has several holders, data of holders and the joint representative;
- number of shares of shareholders in a breakdown by share series, the ratio of their ownership share;
- securities code, as well as series and nominal value of shares;
- type of shares;
- date of entry of the share purchase in the register of shareholders;
- date of withdrawal and destruction (cancellation) of shares;
- file number and date of the supervisory decision related to the acquisition of ownership, if it is required for acquisition of ownership.

In an annex to the register of shareholders, the Board of Directors or its proxy as per the applicable legislation shall keep the data identifying the indirect holding (ownership) of all owners having at least five percent in the Company, calculated according to the provisions of Annex no. 3 of the Credit Institutions Act. The owner holding or acquiring at least five percent ownership interest in the Company must notify the Company of its indirect ownership held in the Company, as well as of any changes thereof, and shall simultaneously also disclose data suitable for identification. The voting right of the shareholder who fails to fulfill its above notification obligation shall be suspended by the Supervisory Authority until the obligation is fulfilled.

9.5. The shareholder shall be responsible for any damage caused to any person through providing untrue information in the course of the entry in the register of shareholders, or failed to fulfill its obligation of information laid down in Articles 9.6 and 9.7.

9.6. Any shareholder entered in the register of shareholders of the Company is obliged to notify the Board of Directors within 30 days in writing of any change in their data registered in the register of shareholders.

9.7. In cases where the ownership of a shareholder ceases by debit to the securities account, the shareholder account keeping financial institution shall notify the keeper of the register of shareholders to that effect within two banking days. Based on the notification the keeper of the register of shareholders must record the change in the register without delay. All data erased from the register of shareholders shall remain legible.

9.8. The Company accepts the proprietary deposit certificate issued by the KELER Central Depository Ltd ("KELER Ltd"), as place of deposit and the securities account extract issued by KELER Zrt. for an appropriate date as certificate of the ownership of the share.

9.9. Senior employees of the Company as per Section 6 subsection (122) of the Credit Institutions Act shall report to the Board of Directors of the Company the shares in their possession issued by the Company.

10. Rights and obligations of shareholders

10.1. Obligations of shareholders:

10.1.1. The responsibility of shareholders against the Company shall extend to the provision of the nominal value or issue value of the share. The shareholder shall otherwise not be responsible for the obligations of the Company.

10.1.2. During the existence of the Company, shareholders may not reclaim any pecuniary contribution made by them. With the exception of the case of reduction of the registered capital, it is prohibited to effect disbursements to shareholders on the basis of their membership legal relationship to the debit of the registered capital.

10.1.3. The provisions of the Capital Markets Act and the Credit Institutions Act shall apply to the acquisition of influence in the Company.

10.2. Rights of shareholders:

10.2.1. Shareholders are entitled to exercise their shareholders' rights in possession of the holder's certificate defined in the provisions of legal rules applicable to shares and securities. A holder's certificate is not required for exercising the shareholders' rights in cases where eligibility is established through the shareholder's verification under the Capital Markets Act and in compliance with the provisions of the Statutes. In addition to the foregoing, compliance with Article 12.1 is also required for exercising the rights of shareholders in connection with the General Shareholders' Meeting.

10.2.2. These rights may be exercised by the shareholder personally or by proxy (a representative) or through a nominee as per the Hungarian Civil Code and the Capital Markets Act. The representative's authorization shall be valid for a General Shareholders' Meeting or a definite period of time, but not more than 12 months. The validity of the representative's authorization shall extend to the continuing of the suspended General Shareholders' Meeting and the General Shareholders' Meeting convened repeatedly as a result of lack of quorum. The power of attorney shall be submitted to the Company in the form of a public deed or a private deed with full probative force. A member of the Board of Directors and of the Supervisory Board may only proceed as representative, if such person as proxy has obvious and written voting instruction in each and every proposal given by the principal. The Auditor of the Company and the property inspector of the Company may not proceed as representatives. The shareholder may appoint a proxy to represent him at the General Shareholders' Meeting by returning the form included in Annex 1 or Annex 2 to the Statutes and supplied by the Company electronically or by mail. The form shall be returned as a private deed with full probative effect not later than by the end of the working day preceding the day of the General Shareholders' Meeting. If a shareholder is represented by more than one proxy and the proxies cast different votes or make different statements, all votes cast and statements made by the proxies shall be null and void.

10.2.3. Shareholders may apply for crediting shares onto a securities account following payment of the total nominal value of their shares, or if the nominal value or the issue value are different, the payment of the total consideration of the latter.

10.2.4. Shareholders shall have a right to a share of the after -tax profits of the Company in proportion to the nominal value of their shares (dividend), pursuant to the legal rules of accounting, ordered to be distributed by the General Shareholders' Meeting. The dividend can be determined with due consideration of the rights assigned under the Statutes to the different share classes.

10.2.5. Shareholders who are registered in the Company's Register of shareholders on the balance sheet day determined by the General Shareholders' Meeting for dividend payment are entitled to receive dividend. At least 20 business days shall lapse between the date of the decision providing for the initial date of dividend payment and the initial date of dividend payment.

10.2.6. In the case of the termination of the Company without a legal successor, shareholders are entitled to a portion of the assets that may be divided as a result of final accounting in proportion to their shares.

10.2.7. Shareholders are entitled to attend the General Shareholders' Meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If the applicant finds the denial of his or her request for information to be unjustified, he or she may ask the Court of Registration to oblige the Company to provide the information. As for items on the agenda of the General Shareholders' Meeting, the Board of Directors shall provide the shareholders with information necessary to discuss any and all items on the agenda of the General Shareholders' Meeting, so that the shareholders – upon a written request filed at least 8 days prior to the General Shareholders' Meeting – shall receive the necessary information at least 3 days prior to the General Shareholders' Meeting.

10.2.8. Shareholders are entitled to make proposals and – within the frameworks allowed under legislation – to exercise the rights arising from their shares.

10.2.9. Shareholders shall be entitled to all the minority rights provided for by the Hungarian Civil Code.

10.3. The holder of Series "B" dividend preference shares shall be entitled to exercise shareholder's rights with the differences below:

10.3.1. Right to dividend: holder of the Series "B" dividend preference shares shall be entitled to 10% more dividend than the holder of Series "A" ordinary shares from after-tax profit to be distributed among shareholders, provided that dividend is not paid to the holder of dividend preference shares in any financial year, the unpaid dividend may not be paid from the profit of the following years;

10.3.2. Right to vote: holder of the Series "B" dividend preference shares shall not have right to vote, thus he shall not be entitled to vote on the General Shareholders' Meeting. Where the Company does not pay dividends in any financial year, the voting rights of the holders of dividend preference shares shall be equal to the voting rights related to Series "A" ordinary shares, which right may freely be exercised until the annual account for the following financial year is adopted.

10.4. The holder of Series "C" ordinary shares shall be entitled to exercise shareholder's rights with the differences below:

10.4.1. Right to vote: holder of the Series "C" ordinary shares shall have the same voting right as in case of Series "A" ordinary shares, namely a pieces of Series "C" ordinary share at a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes.

ORGANIZATION OF THE COMPANY

11. General Shareholders' Meeting

11.1. The General Shareholders' Meeting is the supreme organ of the Company.

11.2. The General Shareholders' Meeting shall be convened by the Board of Directors by means of an announcement published in the media determined by the Statutes, at least 30 days prior to the initial date of the General Shareholders' Meeting. The announcement shall contain the following:

a) Corporate name and registered office of shareholders;
b) Date and place of the General Shareholders' Meeting;
c) Agenda of the General Shareholders' Meeting;
d) The conditions stipulated in the Statutes for exercising voting right;
e) The date as long as the name of the shareholder who intends to attend at the General Shareholders' Meeting or the authorized nominee could be registered into the register of shareholders;
f) Terms and conditions on exercising the right on requesting information and complementing the agenda of the General Shareholders' Meeting as defined in the Statutes;
g) Information on the date, place and method of the access of the proposals and draft resolutions in connection with the agenda of the General Shareholders' Meeting (including the website of the Company), and
h) The date and place of the repeated General Shareholders' Meeting in case the General Shareholders' Meeting has no quorum; and
i) The method of holding the General Shareholders' Meeting.

11.3. The General Shareholders' Meeting shall be convened by the Board of Directors, with the exceptions stipulated by law or these Statutes***- to the location defined in the invitation sent by the Board of Directors, or to the seat of the Company in the absence of a decision by the Board of Directors -***, if it is considered necessary for the sake of proper operation of the Company, or if it is required by the Statutes or any piece of legislation. Based on the Integration Act, the Board of Directors shall be obliged to convene the General Shareholders' Meeting of the Company, as soon as possible, if the Board of Directors of the Integration Organization or the Board of Directors of the Central Bank initiated the holding of the General Shareholders' Meeting for purpose of renewing the executive officers.

11.4. The General Shareholders' Meeting shall be convened at least once every year. The Central Bank and the Integration Organization must be notified of the General Shareholders' Meeting, in advance, simultaneously with the publication of the invitation. The invitation, the proposals regarding the agenda items and related materials (if any) must be attached to the notification. In justified cases, the management of the Integration Organization may call upon the Company to prepare proposals to the agenda items specified by the Integration Organization, in their absence, in writing, within 5 business days of the notification. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the General Shareholders' Meeting of the Company with the right of consultation.

Shareholders who indicate in writing their preference to that effect shall also be sent electronic notification of the convocation of the General Shareholders' Meeting in addition to the announcement through the places according to the Statutes of the Company.

The Company shall disclose the material data of the financial statement prepared under the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board, the summary in connection with the numbers of the shares and of the voting rights at the date of the convocation (as well as the separate summary on the classes of shares), the proposals related to the items of the agenda, the supervisory board reports concerning these, the draft resolutions, as well as the forms used for voting through proxies (if not sent to the shareholders directly) at least 21 days prior to the General Shareholders' Meeting according to the provisions of the Statutes of the Company on the publication of the announcements and official statements.

11.5. If the General Shareholders' Meeting has been called in violation of the rules, it may adopt resolutions only in the presence of all shareholders entitled to vote, and only if the shareholders agree to the holding of the General Shareholders' Meeting unanimously.

11.6. Over and above the annual ordinary General Shareholders' Meeting, the Board of Directors shall convene an extraordinary General Shareholders' Meeting in the cases defined in legal rules, if the previous General Shareholders' Meeting or the Board of Directors adopted such a resolution, or if the holder (holders) of shares representing at least 1% of votes so request indicating the reason and the purpose. The General Shareholders' Meeting may also be convened by the Supervisory Board in accordance with Article 15.22. The General Shareholders' Meeting could be convened in 10 days if it should decide about raising the capital of the company in order to avoid the restructuring proceeding of the supervisory authority according to the Act XXXVII of 2014 on measures, extraordinary measures and developing the security of the financial intermediation services.

11.7. The shareholders may exercise their shareholder rights in person, or through their representatives, in line with Article 10.2.2.

11.8. The General Shareholders' Meeting has a quorum if more than half of the shareholders representing the votes embodied by the shares authorizing to vote are in attendance. If the General Shareholders' Meeting has no quorum, the second General Shareholders' Meeting convened on a date defined in the original announcement shall have quorum regarding the issues included on the original agenda, irrespective of the persons in attendance. A General Shareholders' Meeting repeated due to the lack of a quorum may be reconvened to a day 10 to 21 days after the original date.

11.9. The person requested by the Board of Directors shall proceed as Chairman of the General Shareholders' Meeting. The mandate of the Chairman of the General

Shareholders' Meeting shall be valid for the given General Shareholders' Meeting as well as the repeated or continued General Shareholders' Meeting.

11.10. The Chairman may suspend the General Shareholders' Meeting not more than once. In such a case the General Shareholders' Meeting must be resumed within 30 days. In such instances the rules for the convocation of the General Shareholders' Meeting and election of its officers shall not be applied.

12. Competence of the General Shareholders' Meeting, order of adoption of resolutions and exercise of the voting right

12.1. Right to one vote and each Series "C" ordinary share of a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes at the General Shareholders' Meeting. At the General Shareholders' Meeting shareholders' verification is carried out as defined by the Capital Markets Act, the Stock Exchange Rules and in the Rules of KELER Zrt., and the turning date of owner's compliance may only fall on the period between the 7th and the 3rd stock exchange days preceding the General Shareholders' Meeting. That shareholder may exercise his/her/its membership rights at the General Shareholders' Meeting, who – is the holder of the share – on the date shareholder's verification and whose name is entered in the register of shareholders at – (its closure) – 6.00 p.m. CET on the 2nd day proceeding the General Shareholders' Meeting.

Closure of the register of shareholders shall not limit the right of the holder entered therein to transfer shares after such closure. Nor does the transfer of shares before the day of opening of the General Shareholders' Meeting exclude the right of the holder on the register to participate in the General Shareholders' Meeting and exercise his shareholder's rights.

12.2. The General Shareholders' Meeting shall adopt a resolution on the matters included on the agenda in open voting, using a computerized vote counter, by producing the voting-paper, or in any other manner suitable for counting votes. In the absence of any different decision by the General Shareholders' Meeting, voting shall be effected in a breakdown by draft resolutions. The parties vested with the right of vote shall first vote about the amending draft resolutions, and then about the original draft resolutions. The proposal shall be considered rejected in case of tie. If tie exists in any issue in which a decision shall be taken, on a compulsory basis, through a provision of a legal rule, the issue must be included on the agenda again.

12.3. The following shall fall within the exclusive competence of the General Shareholders' Meeting:

a) establishment and amendment of the Statutes;
b) passing of the decision on the change of the type of the Company;
c) crease and reduction of the registered capital, including the authorization granted to the Board of Directors to increase the registered capital, as defined in Articles 7.3 and 7.4;
d) decision on the merger and consolidation, merger, demerger of the Company with another company limited by shares, or its termination without a legal successor, or the transformation of the Company into another corporate form;

e) election, recall and establishment of the remuneration of the members of the Board of Directors;
f) election, recall and establishment of the remuneration of the members of the Supervisory Board;
g) election, recall and establishment of the remuneration of the members of the Auditor;
h) providing financial assistance to third parties for acquiring shares issued by the Company;
i) acceptance of the report drawn up in accordance with the Accounting Act and making a decision on the use of after-tax profit;
j) decision on the payment of dividend and interim dividend, except for the case stipulated in 14.19.1 e);
k) he evaluation of the work of the executive officers performed during the previous business year, as required under the Hungarian Civil Code, and decision on the relief that may be granted to them;
l) change of rights attached to the individual share series, and transformation of the individual share types and classes;
m) decision making on the issue of convertible bonds or bonds providing subscription right;
n) decision on exclusion of the priority of subscription;
o) decision on the acquisition of own shares, unless the acquisition of own shares is required in the interest of avoiding any serious damage threatening the Company, and on the acceptance of a public bid received for own share;
p) decision on steps to disturb a public bid procedure;
q) approval of the Rules of Procedure of the Supervisory Board;
r) approval of the Corporate Governance Report;
s) decision on preparing the establishment of a recognized group of companies and on the contents of the holding contract;
t) approval of the draft of the holding contract;
u) decision on the application for the cancellation of the shares of the Company from any stock exchange or subscription system;
v) the approval of the guidelines of remuneration which shall be published on the official homepage of the Company within 30 days counted from its approval;
w) decision on all issues referred to the exclusive competence of the General Shareholders' Meeting by law or the Statutes.

12.4. The Company's Board of Directors shall be authorized to modify the registered office, the business premises, the branch offices or the scope of business – except for the core business – of the Company and to amend the Statutes of the Company accordingly.

12.5. In case the consent or approval of the Integration Organization and the Central Bank is required for the decision of the General Shareholders' Meeting according to the Integration Act or the Statutes of the Integration Organization, the management of the Company shall be responsible for obtaining the permits required.

12.6. The prior consent of the Integration Organization shall be required for amendment or approval of the statutes.

12.7. The General Shareholders' Meeting shall adopt its resolutions on issues falling within its competence by at least the simple majority of the votes approving the draft resolution except for matters specified by Section 3:102, Section 3:211 subsection (3) and Section 3:276 of the Hungarian Civil Code and all other cases specified by law where the approval of a 3/4 (three-quarter) majority of the shareholders attending - or if the law provides otherwise then according to the conditions set out therein - is required for the adoption of the resolution concerned. Abstention shall qualify as "no" vote.

12.8. The General Shareholders' Meeting shall adopt a resolution on all issues submitted to the General Shareholders' Meeting by the Board of Directors, the Supervisory Board or the shareholder(s) representing at least 1% of shares. If shareholders who hold at least 1% of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within 8 days after publishing the announcement of calling the General Shareholders' Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda.

12.9. A resolution of the General Shareholders' Meeting aimed at the transformation of the form of public (open) operation of the Company into private, may be adopted if at least a 3/4 (three-quarters) majority of shareholders who separately represent not more than 1% of votes gave its prior consent thereto. In connection with the prior consent, the Board of Directors shall be obliged to call upon the concerned shareholders of the Company, in the announcement containing the invitation to the General Shareholders' Meeting, to send their statements whether they give their consent or not. The shareholders concerned shall send the position taken up by them to the registered office of the Company, in writing, addressed to the Board of Directors, until the deadline indicated in the announcement, which shall be at least the second day following the reporting date of the shareholder identification procedure connected to the General Shareholders' Meeting deciding about the change of the public operation form of the Company to a private operation form. Should a shareholder fail to make any statement within the time limit set in the announcement, the shareholder shall be considered as if they gave their consent. Several consents may not be validly made on the basis of a given share. The Board of Directors of the Company shall determine the scope of shareholders concerned, on the basis of the data contained in the shareholder identification connected to the General Shareholders' Meeting deciding about the change of the public operation form of the Company to a private operation form.

12.10. The resolution of the General Shareholders' Meeting as per paragraphs (c) and (l) of Article 12.3 can be adopted if more than half of the shareholders holding the concerned share types or share series present at the given General Shareholders' Meeting have granted their separate consent to this. The votes cast by the shareholders of the concerned share types or share series shall be evaluated separately as well, in terms of this consent, in the course of determining the results of the vote, and, if necessary, a separate voting must be held for these shareholders. A share type or share series is considered as "a concerned share type or share series" if the resolution of the General Shareholders' Meeting directly and adversely modifies a shareholder right defined in these Statutes, attached to the given share type or share series. In the course of the aforementioned, the provisions applicable to the possible restriction or exclusion of the voting right attached to the share (excluding the prohibition to exercise the voting right related to the own shares) shall not apply. Based on the authorization specified in the resolution of the General Shareholders' Meeting passed according to the provisions of this Article, the consent required under law for the resolution passed by other bodies of the Company is deemed to have been granted.

13. Officers of the General Shareholders' Meeting and their work

13.1. The Chairman of the General Shareholders' Meeting shall

- conduct the discussion in the order indicated in the announcement on the convocation of the General Shareholders' Meeting;
- order the votes;
- sign and request a shareholder in attendance to authenticate the minutes to be taken in connection with the discussion and the resolutions.

13.2. Minutes shall be drawn up of the General Shareholders' Meeting, which shall contain the following:

- corporate name and registered office of the Company;
- method, place, and date of holding the General Shareholders' Meeting;
- name of the Chairman of the General Shareholders' Meeting, the keeper of the minutes, the certifier of the minutes and the person counting the votes;
- important events and proposals made during the General Shareholders' Meeting;
- draft resolutions, the number of each share for which a valid vote was cast for a given resolution, the capital share represented by such votes, the number of votes cast for and against the proposal, and the number of abstains;
- objection of the shareholder, a member of the Board of Directors or of the Supervisory Board to a resolution if so requested by the objecting person.

13.3. The minutes shall be signed by the keeper of the minutes and the Chairman of the General Shareholders' Meeting and authenticated by a shareholder in attendance and elected for that purpose. The minutes recorded at the General Shareholders' Meeting shall be sent to the Central Bank, the Integration Organization and the Supervisory Authority within 15 days of the date of the General Shareholders' Meeting.

14. Board of Directors

14.1. The Board of Directors is the managing body of the Company, and the members of the Board of Directors shall qualify as officers. The Company is managed by the Board of Directors, acting as a body. The Board of Directors shall represent the Company towards third parties, vis-á -vis courts and other authorities. Shareholders cannot vindicate the competencies of officers. The provisions of the Hungarian Civil Code shall be applicable to the liability of executive officers.

14.2. Only natural persons can be elected as members of the Board of Directors. The Board is made up of at least 5 and no more than 11 members. The Board of Directors shall be elected by the General Shareholders' Meeting from among shareholders and other persons. At least two members of the Board of Directors shall be employed by the Company (hereinafter referred to as internal members). Furthermore, at least 2 members of the Board of Directors shall be Hungarian citizens, residents for foreign exchange purposes, and shall have permanent residence in Hungary for at least 1 year.

14.3. The managing directors of the Company may be elected as internal members of the Board of Directors. In the case of termination of employment of the internal members of the Board of Directors, the membership of the Board of Directors shall, simultaneously, cease to exist.

14.4. Those who acted as auditors of the Company or any other financial institution in close relationship with the Company in the preceding 3 years may not be members of the Board of Directors. A person may not hold a seat on the Supervisory Board either, if he/she fails to meet the requirements set forth by law or in the Rules on the eligibility of executive officers and the control of eligibility issued by the Integration Organization.

14.5. Members of the Board of Director may not acquire shares in another business organization pursuing the same main activity as the Company, with the exception of the Central Bank, other legal entity falling under the consolidated supervision with the Company or public limited companies, and may not be officers of another business organization pursuing the same main activity as the Company (excluding the Central Bank, other legal entity subject to the consolidated supervision of the Company) except with the approval of the General Shareholders' Meeting. Members of the Board of Directors and their relatives may not engage in transactions, on their behalf or to their own benefit, which fall within the core activities of the Company, with the exceptions stipulated by law. The executive officer of the Company can be an executive officer, without limitations, in a legal entity (falling under consolidated supervision with the Company) that is engaged, as its core activity, in pursuing the same economic activity as the Company. If the executive officer of the Company accepts a new executive officer appointment, they shall be obliged to report this fact to the Company within 15 days from acceptance of the given position.

14.6. The mandate of the members of the Board of Directors shall last for 5 years from the date of their election. The members of the Board of Directors may be called back at any time and can be re-elected following the expiry of their mandate.

14.7. Members of the Board of Directors may waive their office at any time, but if so required by the operability of the Company, in particular if the actual number of the members of the Board of Directors fell below the number specified as a minimum in Article 14.2, or the number of internal members fell below 2 as a result of resignation, resignation will only become effective on the sixtieth day reckoned from the announcement thereof, unless the General Shareholders' Meeting provided for the election of the new member prior to that.

14.8. The Board of Directors shall elect a Chairman from among its members.

14.9. The Chairman of the Board of Directors (in his/her absence, any member of the Board of Directors designated by him/her) shall organize the work of the Board of

Directors, and shall provide for the effective operation thereof. Within the framework thereof, he/she shall, in particular:

- convene the meeting of the Board of Directors in writing, 5 days prior to the date of the meeting, with the exception of the case of a decision that may not be postponed;
- provide for sending the proposals and keeping the minutes;
- chair the meeting and order voting; as well as
- chair the General Shareholders' Meeting, if necessary, until the Chairman of the General Shareholders' Meeting is elected.

14.10. The Board of Directors shall hold a meeting at least once every three months, however, the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall be obliged to convene the Board of Directors upon request of two members and in all cases prescribed by law. The meetings shall be convened by the Chairman or the Board of Directors or the member appointed by him/her by an invitation forwarded at least 5 (five) business days before the date of the meeting. The Chairman of the Board of Directors shall notify the Integration Organization and the Central Bank of the meeting of the Board of Directors, in advance, by sending the invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The authorized representatives of the Integration Organization and the Central Bank shall be entitled to attend the meetings of the Board of Directors with the right of consultation. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all related documents, if any, shall be attached to the invitation. In justified cases, the management of the Integration Organization may call upon the Company to prepare proposals to the agenda items specified by the Integration Organization, in writing, within 3 business days of the notification. A resolution on any matter not included in the agenda may only be adopted if all members or the representative of the Integration Organization or the Central Bank is present at the meeting, or participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and consent to discuss the matter not included amongst the agenda items. The Board of Directors may not adopt a valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or a member of the Supervisory Board designated by him/her shall be entitled to take part in the meeting of the Board of Directors as a person invited on a permanent basis.

14.11. The Board of Directors has a quorum if at least half of its members are in attendance at the meeting. The Board of Directors has no quorum if the provisions of Article 14.10 are breached. The simple majority vote of the members present is required for the adoption of a resolution of the Board of Directors unless otherwise regulated by law or these Statutes.

14.12. Minutes shall be drawn up of the meetings of the Board of Directors. The minutes shall contain:

- lace and date of the meeting of the Board of Directors,
- name of the members of the Board of Directors present,
- proposals set forth,
- decisions made, and any objections to such decisions.

Members of the Board of Directors may request to enter their opinion word for word in the minutes.

14.13. The minutes shall be signed by the Chairman of the meeting, by two further members of the Board of Directors in attendance and by the keeper of the minutes. The minutes shall be sent to all members of the Board of Directors and to the Chairman of the Supervisory Board, furthermore to the Integration Organization and the Central Bank, within 15 days following the meeting, irrespective of whether they attended the meeting or not.

14.14. The members of the Board of Directors are entitled to participate in the meeting of the Board of Directors by means of electronic communication devices, the detailed rules of which are set out by the rules of procedure of the body.

14.15. The Board of Directors may only adopt a valid resolution outside a meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Board of Directors cast their votes in a private deed with full probative force and send it to the registered office of the Company within 2 business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Board of Directors.

The provisions of Article 14.10 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, mutatis mutandis, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Board of Directors may not adopt a valid resolution if the above obligations are breached.

14.16. The operation of the Board of Directors shall be regulated in detail by the rules of procedure of the Board of Directors. The rules of procedure shall be elaborated by the Board of Directors itself within the framework set out by these Statutes.

14.17. The Board of Directors shall manage and control the business operations of the Company. Within the scope of the Statutes, it is entitled to take all measures that are not reserved exclusively for the General Shareholders' Meeting. The Board of Directors will be responsible for ensuring prudent operation and compliance with risk taking and capital adequacy provisions at the level of the businesses under the Company's controlling influence. The Board of Directors will exercise ownership rights in the case of businesses owned by the Company, or being under the controlling influence of the Company.

14.18. The Board of Directors shall:

- prepare the report of the Company pursuant to the Accounting Act and the proposal for the use of profits, and to submit them to the General Shareholders' Meeting together with the report of the Board of Directors;
- prepare the Company's report on responsible corporate governance and submit it to the General Shareholders' Meeting together with the report of the Supervisory Board;

- prepare a report for the General Shareholders' Meeting on an annual basis, and in every three months for the Supervisory Board on management, as well as on the pecuniary situation and business policy of the Company (including the subsidiaries of the Company involved in the consolidation);
- convene the ordinary General Shareholders' Meeting once annually, and convene the extraordinary General Shareholders' Meeting within 8 days, with the simultaneous notification of the Supervisory Board, if it comes to the knowledge of any of its members that as a result of the losses the equity of the Company has dropped to two-thirds of the registered capital or below the minimum level set forth in the Hungarian Civil Code, or if it comes to its knowledge that the Company is threatened by insolvency or has stopped its payments or its assets do not cover its liabilities;
- provide for keeping the business books of the Company in accordance with the rules;
- provide for keeping the register of shareholders and possibility for looking into the register of shareholders at any time in working hours;
- make a decision on the acquisition of the own shares of the Company, if it is necessary in the interest of avoiding a serious damage threatening the Company;
- ensure prudent operation, and compliance with risk taking and capital adequacy provisions at the level of all the businesses under the Company's controlling influence;
- send its Rule of Procedures to the Integration Organization within 5 days from the date of its approval or modification;
- send all of its policies and regulations that are required by the regulations published by the Integration Organization or the Central Bank, within 15 days following entry into force of the given policy or regulation.

14.19. The competence of the Board of Directors

14.19.1. Competences in relation to the strategy, business and financial activities of the Company:

a) Approval of strategic and business policy objectives;
b) Establishment and approval of annual business and financial plans, as well as the business policy;
c) Analysis and assessment of the implementation of the business policy guidelines on the basis of the quarterly balance sheets of the Company;
d) Management of the finances of the Company, approval of the Accounting Policy and the related internal rules;
e) The Board of Directors is entitled to approve an interim balance sheet, and to pass resolutions on the payment of initial dividend with, however, the prior consent of the Supervisory Board;
f) Establishment of risk management guidelines that ensure the assessment of risk factors as well as the suitability of internal control mechanisms and the regulatory and the supervisory systems for their management, and ensure legal compliance;
g) Approval and regular revision of the strategies and rules (as for the rules containing the qualification and estimation processes relating to the credit and operating risks) regarding the separation of tasks inside the organization, the prevention of conflict of interest, taking, measuring, handling, tracing and reduction of risks;

h) Approval the internal rules regarding the principles of disclosure in connection with risk management;
i) Establishment of the strategy and procedure relating to the determination and permanent maintenance of the capital, the extent and composition thereof, required for covering the Company's current and future risks;
j) j)Establishment of the decision-making competence (limits) relating to financial services;
k) Decision on loan placements 10% over the guarantee capital of the Company (excluding inter-bank financial transactions);
l) Decision on investments with a volume, which from an accounting perspective represents more than 5% of the prevailing equity capital;
m) Decision on the commencement, suspension or termination of the performance of certain activities falling within the licensed sphere of activities of the Company (Article 4.);
n) Determination of the terms and conditions of the contract of agency to be entered into with the property inspector;
o) Establishment of the Treasury's operating procedures on the money and capital market, its rules for entering into and administering deals;
p) Approval of rules for collateral registration, rules on risk taking and large-risk taking, and security valuation;
q) Decision on issues of receivables-property exchanges (forced investments) over HUF 200 million;
r) Sales of individual bad debts of individual customers or customer groups with a loss over HUF 50 million.

14.19.2. Duties and competences related to the operation and organization of the Company:

a) Convocation of the General Shareholders' Meeting of the Company;
b) Maintaining contacts with the shareholders at a proper level and with the necessary frequency;
c) Maintaining contacts with the Supervisory Board and preparation of reports to be submitted to the Supervisory Board
d) Continuous monitoring of the efficiency of corporate management;
e) Management of major conflicts of interest having an effect on the whole organization or on the operation of the Company;
f) Approval of significant organizational changes (discontinuation or establishment of units);
g) Establishment of measures and the plan for taking measures which become necessary as a result of the findings of the National Bank of Hungary;
h) Establishment of a financial incentive system;
i) Approval of rules of employer's loans.

14.19.3. Competences in relation to the increase of share capital and the acquisition of own shares:

a) The Board of Directors is entitled – upon basis of and according to the authorization set forth by this Statues - to increase the share capital of the Company granted by the General Shareholders' Meeting;

b) The Board of Directors is entitled to make decisions on transactions related to own shares upon, and to the extent of, authorization by the General Shareholders' Meeting;
c) The Board of Directors is entitled to make decisions on the acquisition of the Company's own shares without authorization by the General Shareholders' Meeting provided such acquisition is required in order to avoid serious damage to the Company.

14.19.4. Competences in relation to the management of the Group, foundation of companies and investment:

a) Decision on the acquisition or sales of a company or a business activity in cases where the volume of such transaction exceeds 100 million HUF and participation reaches the level of influence;
b) Decision on the issues falling within the sphere of authority of the supreme body in respect of one-person businesses owned by the Company, and exercise of owner's rights;
c) Exercise of member's rights as set forth in the Hungarian Civil Code in the case of business associations under the controlling influence of the Company;
d) Instruction to the boards of credit institutions, financial enterprises and subsidiary businesses in which the Company holds interest over 50% in the interest of compliance with, and implementation of, joint supervisory provisions.

14.19.5. Rights in relation to the representation of the Company:

a) Development of, and monitoring compliance with, guidelines regarding the disclosure of information to be published pursuant to the relevant statutory provisions;
b) Exercise of employer's rights over the chief executives (chief executives: the Chief Executive Officer and the Deputy Chief Executive Officers);
c) Appointment of the employees authorized to sign for the Company to be entered in the Register of Companies, and approval of the internal rules containing the rules of procedure relating to the transfer of the joint right to signature of two internal members of the Board of Directors.

14.19.6. Rights related to own operation:

a) Making proposals, as required, for the appointment of members to the Board of Directors, and for the remuneration of the members of the Board of Directors;
b) Election and removal of the Chairman of the Board of Directors;
c) Approval and modification of the rules of procedure of the body;
d) entitled to form standing or ad hoc committees with the participation of board members and/or persons outside the Board (employees, external experts, etc.), and to give the necessary authorizations to these bodies;
e) The Board of Directors is entitled to use the services of external consultants or experts for the implementation of its activity
f) Supervision of the execution of the resolutions passed by the Board of Directors.

14.19.7. Other competences:

a) Decision in all matters delegated to the Board of Directors by the General Shareholders' Meeting;
b) Decision in all matters delegated to the Board of Directors by legislation, or matters outside the exclusive competence of the General Shareholders' Meeting that are included by the Board within its own sphere of competence, or those that any member of the Board of Directors or the Supervisory Board wishes to discuss;
c) Receipt of reports on current matters within its own competence.

14.20. The employer's rights specified in Article 14.19.5 b) shall be exercised by the Board of Directors. Unless otherwise decided by the Board of Directors, the employer's rights relating to other employees of the Company shall be exercised by the chief executive officer.

14.21. The Board of Directors is entitled, without an authorization of the General Shareholders' Meeting received in advance, to acquire own shares of the Company in a quantity stipulated in the statutory provisions, given that the acquisition is required in the interest of avoiding a serious damage directly threatening the Company. In such cases, the Board of Directors is obliged to disclose information at the next General Shareholders' Meeting on the reasons of acquiring the Company's own shares, on the number and total face value of the acquired shares, as well as on the proportion of these shares in terms of the Company's total registered capital and the amount paid for these shares..

15. Supervisory Board

15.1. Natural persons may only be members of the Supervisory Board.

15.2. The Supervisory Board shall consist of a minimum of 3 and a maximum of 9 members, the majority of whom – but at least 3 members – shall be made up of independent persons (as specified by the Hungarian Civil Code), and with the exception of persons representing the employees, shall not have an employment relationship with the Company. Supervisory Board members are elected by the General Shareholders' Meeting, for a maximum period of 5 years. The Chairman shall convene the General Shareholders' Meeting, if the number of the members of the Supervisory Board falls below 3.

15.3. Members of the Supervisory Board must be of legal age and must have full legal capacity in the scope required for discharging his functions. A person who is subject to any grounds for exclusion applicable to executive officers (as specified by the Hungarian Civil Code), may not hold a seat on the Supervisory Board, nor any person who himself or whose family member holds an executive office (as specified by Section 8:1 subsection (2) of the Hungarian Civil Code) in the Company, nor any person who fails to meet the requirements set forth in the Rules on the eligibility of executive officers and the control of eligibility issued by the Integration Organization.

15.4. Members of the Supervisory Board shall participate in the work of the Supervisory Board personally. Members of the Supervisory Board are independent from the Company's Board of Directors and may not be instructed in their capacity as such.

15.5. Members of the Supervisory Board may be revoked at any time and may be re-elected following the expiration of their mandate. The rules set out in Section 3:25 of the Hungarian Civil Code on the termination of the mandate of executive officers shall apply to the termination of the membership in the Supervisory Board, with the provision that the letter of resignation of the Supervisory Board member shall be addressed to the Board of Directors of the Company.

15.6. The Supervisory Board shall elect a Chairman from its members.

15.7. If the provision in the Statutes – that was approved with the consent of the Works Council – does not preclude, one-third of the members of the Supervisory Board, i.e. the representatives of employees shall be designated by the Works Council, if the annual average number of full-time employees of the Company is in excess of 200 persons.

Person designated by the Works Council shall be given a seat on the Supervisory Board by the General Shareholders' Meeting at the first meeting following such designation, unless a disqualifying reason defined by law exists towards the candidates.

15.8. The Supervisory Board shall hold a meeting when necessary, but at least every 3 months. The Chairman of the Supervisory Board shall be entitled to convene the meeting of the Supervisory Board at any time. Any member of the Supervisory Board may request the Chairman to convene the meeting of the Supervisory Board in writing, by indicating the reasons and goal thereof, and the Chairman, within 10 days, shall take all measures which are necessary for the convocation of the Supervisory Board meeting to a date within 30 days. If the Chairman fails to convene the Supervisory Board meeting pursuant to the above, the member shall become entitled to do so. The convocation of the Supervisory Board may also be requested in writing by the Chairman or two members of the Board of Directors.

15.9. The meetings shall be convened by the Chairman by a written invitation sent in an electronic message or in the form of a deed. The Integration Organization and the Central Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the Central Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members or the representative of the Central Bank or the Integration Organization is present at the meeting, or participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and consent to discuss the matter not included amongst the agenda items. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the Supervisory Board meetings with the right of consultation. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations.

15.10. The Supervisory Board has a quorum, if two-thirds of its members, but at least 3 members are in attendance. It shall adopt its resolutions by simple majority of votes. The Supervisory Board has no quorum, if the Integration Organization and the Central Bank have not been invited to the Supervisory Board meeting at least 5 business days before the meeting by an invitation to which all materials, proposals relevant to the agenda items have been attached.

15.11. The Chairman of the Company's Board of Directors, the Chief Executive Officer or the person appointed by him/her, the Continuing Auditor shall be entitled to attend the Supervisory Board meeting with a right of consultation; the Continuing Auditor must attend the Supervisory Board meeting if the Supervisory Board so requests. The Supervisory Board shall be obliged to put on the agenda all matters proposed to be discussed by the Continuing Auditor.

15.12. Minutes shall be drawn up of the meetings of the Supervisory Board. The minutes shall contain:

– place and date of the meeting,
– name of the members present,
– the motions put forward,
– decisions made, and any objections to such decisions.

Members of the Supervisory Board may request to enter their opinion word for word in the minutes.

The minutes shall be signed by the Chairman of the meeting and two further members of the Supervisory Board present at the meeting. The minutes shall be sent to all members of the Supervisory Board within 15 days following the meeting, irrespective of whether they attended the meeting or not.

15.13. Members of the Supervisory Board may participate in the meetings of the Supervisory Board by means of broadcast of electronic communications devices, the detailed rules of which is set out in the Rules of Procedure of the Supervisory Board.

15.14. The Supervisory Board may only adopt a valid resolution outside the meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Supervisory Board put their votes in a private deed with full probative force and send it to the registered office of the Company within 2 business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Supervisory Board.

The provisions of Article 15.9 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, mutatis mutandis, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations.

15.15. The Supervisory Board shall establish its rules of procedure itself, subject to the rules stipulated in the Statutes, which shall be approved by the General Shareholders' Meeting.

15.16. The Supervisory Board supervises the management of the Company. As part of this activity, it may request reports or information from the members of the Board of Directors or the employees of the Company, and may examine the documents and books of the Company or may commission experts to examine such documents. The Company provides access for the Supervisory Board to the information concerning the risks of the credit institution, the risk control function, and the opinions of third party experts. Any member of the Supervisory Board may motion to invite a report or ask for information orally at the meeting of the Supervisory Board or, outside the meeting, in a written request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The report or information requested shall be sent by the Chairman of the Supervisory Board within fifteen days from the meeting of the Supervisory Board, or from receipt of the written request. The Supervisory Board shall examine the report drawn up in accordance with the Hungarian Accounting Act, the proposal on the use of after-tax profit, furthermore, any and all proposals relating to a matter falling within the competence of the General Shareholders' Meeting. The findings of this examination shall be presented by the Chairman of the Supervisory Board. Without being aware of the contents of the written report of the Supervisory Board, the General Shareholders' Meeting may not adopt a valid resolution on the report drawn up in accordance with the Accounting Act and the use of after-tax profits.

15.17. In addition to Article 15.16, the Supervisory Board shall be responsible, in particular, for

a) ensuring that the Company has a comprehensive control plan suitable for profitable operation;
b) making a proposal for the Auditor as a company, or a human being; and his/her/its remuneration, on basis of the preliminary proposal of the management and the recommendation of the Audit Committee;
c) *
d) monitoring the auditor's compliance with the prescribed professional requirements, conflict of interests and requirements on his/her/its independence, taking care of activities related to the cooperation with the auditor, monitoring other services provided by the auditor to the Company in addition to the audit of the financial statements according to the Hungarian Accounting Act, furthermore – if required – making proposals to the Board of Directors on taking certain actions;
e) commenting the financial statements prepared according to the Hungarian Accounting Act and monitoring their audit;
f) inspecting the annual and interim financial reports of the Company (including consolidated reports);
g) valuating the financial accounting system's operation and making proposals on taking the necessary measures;
h) directing the internal audit organization, and as part of this activity;
    1. accepting the annual audit plan of the internal audit organization;
    2. discussing the reports prepared by the internal audit at least semi-annually, and controlling the execution of the actions required;

3. if required, supporting the work of the internal audit by engaging the services of an external expert;
4. making a proposal on changing the headcount of the internal audit organization;
5. Prior consent is required from the Supervisory Board for decisions made regarding the establishment and termination of the employment of manager and employees of the Internal Audit Organization , and regarding the determination of their remuneration;

i) elaborating recommendations and proposals on the basis of the findings of the examinations conducted by the internal audit organization;
j) discussing the Corporate Governance Report;
k) monitoring the efficiency of the internal audit and the risk management system,
l) helping the work of the Board of Directors in order to properly audit the financial reporting system, and
m) acceptance and review of the principles of the remuneration policy.

15.18. The Chairman of the Supervisory Board shall send, within 10 days following the meeting of the Board, the minutes, proposals and reports relating to an item on the agenda discussed by the Supervisory Board and within 15 days to the Integration Organization and the Central Bank, the subject-matter of which is the gross violation of the internal rules of the Company, or a serious irregularity established in direction and management.

15.19. The members of the Supervisory Board shall attend the General Shareholders' Meeting with the right of consultation.

15.20. The Supervisory Board shall act as a body. It may divide supervisory duties among its members on a permanent basis. Such division of supervisory duties shall not affect the responsibility of the Supervisory Board member, or his right to extend his supervision to other activities falling within the supervisory duties of the Supervisory Board.

15.21. If, in the judgment of the Supervisory Board, the activity of the Board of Directors violates the law, the Statutes of the Company or the resolutions of the General Shareholders' Meeting, or otherwise infringes on the interests of the Company or its shareholders, the Supervisory Board shall convene an extraordinary General Shareholders' Meeting and shall propose its agenda.

15.22. The Supervisory Board may propose, in writing, the convening of a meeting of the Board of Directors and putting specific topics on its agenda.

16. Audit Committee

16.1. The Audit Committee consists of at least 3 and at most 9 persons. The members of the Audit Committee shall be elected by the General Shareholders' Meeting for a period not more than 5 years from among the independent members of the Supervisory Board.

16.2. The Audit Committee supports the Supervisory Board in controlling the financial reporting system, selecting the auditor, and cooperating with the auditor. The competence of the Audit Committee shall include:

a) commenting the financial statements according to the Hungarian Accounting Act and monitoring its audit;
b) producing a recommendation to the Supervisory Board regarding the appointment of the auditor;
c) supporting the preparation of the agreement to be concluded with the auditor;
d) monitoring the auditor's compliance with the prescribed professional and conflict of interests related requirements, taking care of activities related to the cooperation with the auditor, including especially the reviewing and monitoring of other services provided to the Company, and – if required – making proposals to the Supervisory Board on taking certain actions;
e) evaluating the operation of the financial reporting system and monitoring the processes thereof, as well as making recommendations regarding the taking of necessary measures;
f) monitoring the efficiency of the internal audit and the risk management systems of the Company; and
g) supporting the work of the Supervisory Board in order to properly audit the financial reporting system

16.3. The operation of the Audit Committee shall be regulated in detail by the rules of procedure of the Supervisory Board.

17. Continuing auditor

17.1. A continuing auditor is working for the Company. The continuing auditor shall be elected by the General Shareholders' Meeting from the register of auditors published by the Central Bank, for the maximum period of 5 years, to ensure the lawful operation of the Company and to control the management. The period of the mandate of the continuing auditor may not be shorter than the period between his or her election by the General Shareholders' Meeting and the adoption of the subsequent report by the General Shareholders' Meeting.

17.2. The continuing auditor may only be engaged if he complies with the conditions set out in Section 260 subsections (1)-(2) and (4)-(5) of the Credit Institutions Act and Section 17/K subsections (6)-(8) of the Integration Act. The Company may not commission any employee of the Supervisory Authority or their close relative as per Section 8:1 subsection (1) of the Hungarian Civil Code to become the continuing auditor.

17.3. The mandate agreement shall be concluded with the continuing auditor, with the conditions and remuneration established by the General Shareholders' Meeting, by the Board of Directors within 90 days as of the appointment or election. The mandate agreement entered into with the continuing auditor shall reflect the obligations of the continuing auditor originating from the Integration Act as well as from these Statutes. In case the agreement is not entered into within this deadline, the General Shareholders' Meeting shall elect a new continuing auditor.

17.4. A new mandate agreement can be concluded with the same auditor after lapse of four years following the termination of the mandate. The auditor (employee, executive officer, member subject to the obligation of performing work) employed by an auditing company, who has personal responsibility for the auditing work, may perform auditing tasks for the same credit institution no longer than for a period of five years, and such auditor can perform auditing tasks at the same credit institution again, only after the lapse of four years following the termination of his/her mandate.

17.5. The continuing auditor may not render services to the Company and may not establish such a cooperation with the management that jeopardizes the independent and objective provision of his auditing duties.

17.6. It is the duty of the continuing auditor to carry out the permanent audit orderly, and based on this to make a statement in an independent auditor report on whether the report of the Company drawn up in accordance with the Accounting Act complies with the relevant legislation, and presents a true and fair view of the financial and earnings position of the Company and its results of operation. Within the framework thereof, he/she shall, in particular:

a) may inspect the books of the Company, may request information from officers, members of the Supervisory Board and employees of the Company, may inspect the cash desk, as well as the portfolio of securities and goods, the contracts and bank accounts of the Company;
b) inspect the trueness and compliance with legislation of the report of the Company drawn up in accordance with the Accounting Act and submit a report thereon to the General Shareholders' Meeting;
c) shall examine all essential business reports submitted to the General Shareholders' Meeting, in particular the report drawn up in Accordance with the Accounting Act and the statement of assets from the respect whether they contain true data or are in compliance with statutory provisions;
d) may inspect the Company's files and accounting records, may request information from the executive officers as per Section 3:21 subsection (1) of the Hungarian Civil Code, the members of the Supervisory Board and the employees of the Company, and inspect the Company's payment account, petty cash and securities and goods stock and contracts;
e) may participate in the meetings of the Supervisory Board with rights of consultation, and if so requested under the notice of the Supervisory Board, he is obliged to participate in the meeting of the Supervisory Board, and may request the Supervisory Board to put on the agenda the matter recommended by him, which shall be put on the agenda by the Supervisory Board;
f) may submit reports to the Supervisory Authority in cases defined by the Credit Institutions Act, particularly in cases defined by Section 142 of the Credit Institutions Act;
g) if he detects a deterioration in the Company's assets that jeopardizes the satisfaction of the claims against the Company, or detects any circumstance that entails the responsibility of the executive officers as per Section 3:21 subsection (1) of the Hungarian Civil Code or the members of the Supervisory Board for activities carried out in their capacity as such, he shall without delay initiate at the management any measures that are required for the members to make a decision. If the initiative does not yield results, he shall notify the court of

registration carrying out judicial oversight in respect of the legal person of the discovered circumstances.

17.7. The continuing auditor shall be invited to the session of the General Shareholders' Meeting discussing the report of the Company drawn up in accordance with the Accounting Act. The continuing auditor shall participate in the session, but his absence shall not impede the holding of the session.

17.8. In case the continuing auditor discovers that the report drawn up in accordance with the Accounting Act of the Company does not comply with the laws or does not present a true and fair view of the assets, financial and earnings position of the Company and its results of operation, then he shall, further to the legal consequences laid down in other legislation, notify within 3 business days as of discovery the Audit Committee, the Supervisory Authority, the Integration Organization and the Central Bank about these findings.

17.9. The Auditor shall report to the Audit Committee any and all key issues that arise in the course of the audit, including especially any and all major shortfalls of internal control relating to the financial reporting process.

17.10. The continuing auditor shall record his findings regarding those in Section 263 subsection (1) of the Credit Institutions Act in a separate supplementary report, and shall send this report until 31 May of the year following the relevant year at the latest to the Board of Directors of the Company, the managing director, the Chairman of the Supervisory Board, the Supervisory Authority, as well as to the Central Bank and the Integration Organization.

18. Property Inspector

18.1 In the interest of providing for the lawful operation of the Company, as well as for controlling and verifying the cover records of mortgage bonds issued by the Company, on a continuous basis and within the sphere defined by law, the Board of Directors of the Company shall appoint a Property Inspector. The license of the Supervision is required for the validity of the appointment of the Property Inspector.

18.2 The Property Inspector may be appointed for a definite period of time not exceeding five years, but may be appointed again following expiry of the period of appointment. Without the license of the Supervision, the contract of agency concluded by the Company and the property inspector may not be validly terminated.

18.3 The Company may not instruct the Property Inspector within the sphere of his activities as Property Inspector.

18.4 The Property Inspector may have access to the books and other documents of the Company containing data necessary for the fulfillment of his/her duties, and may request information in connection with the fulfillment of his her duties, at any time. The Company shall provide continuous information to the Property Inspector about the principal and interest repayment of mortgage loans entered in the cover register and any changes affecting the pledged property and the additional cover even without that.

18.5 The Property Inspector shall be invited to the General Shareholders' Meeting of the Company, and he/she may participate therein with the right of consultation.

19. Chief Executive Officer

19.1 The Chief Executive Officer is the Company's employee, the senior employee, in connection with whom the employer's rights – with the exception of those falling into the exclusive competence of the General Shareholders' Meeting – are exercised by the Board of Directors.

19.2 The Chief Executive Officer qualifies as a senior executive under sub-paragraph b) of Paragraph 122 of Subsection 1 of Section 6 of the Credit Institutions Act, therefore only such persons may be elected as Chief Executive Officer in respect of whom no grounds for exclusion or conflict of interest circumstances set out in Section 137 subsections (4)-(6) of the Credit Institutions Act exist, and who comply with the conditions set out by the rules on the competence of executive officers and the verification of their competence, issued by the Integration Organization .

19.3 Rights with respect to the Chief Executive Officer's membership of the Board of Directors shall be the exclusive competence of the General Shareholders' Meeting.

19.4 The Chief Executive Officer undertakes management and control of daily operation in the context of his employment, and performs his duties as member of the Board of Directors under company law. Accordingly, his employment is governed by the Labor Code, and his election on, and membership of, the Board of Directors is governed by the provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Act on Credit Institutions) and of the Hungarian Civil Code .

19.5 The duties between the Board of Directors and the Chief Executive Officer are divided in such a way that the daily work of the Company shall be directed and controlled by the Chief Executive Officer within the framework of legal rules and the Statutes of the Company, and according to the decisions of the General Shareholders' Meeting and the Board of Directors. The decision-making on all matters which are not referred to the exclusive competence of the General Shareholders' Meeting and the Board of Directors shall fall within the competence of the Chief Executive Officer. The above division of duties shall not affect the responsibility of the Board of Directors and the members of the Board of Directors defined by legal rules.

19.6 The Chief Executive Officer shall exercise the employer's rights related to the employees of the Company in accordance with the provisions set forth in Article 14.19.5.b.

20. Authorized signature

20.1 Two persons shall jointly sign for the Company in matters assuming commitments on behalf of the Company in connection with financial service activities, including disposal over the Company's bank accounts, as follows:

- one external and one internal member of the Board of Directors jointly;
- two internal members of the Board of Directors jointly,

- two managing directors (persons satisfying the conditions set forth in Section 6 subsection (1), subparagraph 115 of the Act on Credit Institutions) jointly,
- the joint right to sign of two internal members of the Board of Directors and two managing directors may be transferred as joint right to sign in accordance with the relevant provisions of legal rules and the Rules of Procedure laid down in the Internal Rules approved by the Board of Directors of the Company..

20.2 The signature for the Company shall be effected in such a way that the persons entitled to represent the Company shall sign their names under or above the pre-typed, pre-printed or printed corporate text of the Company in accordance with their authentic specimen signature.

MISCELLANEOUS PROVISIONS

21. Withdrawal of shares from the stock exchange

The General Shareholders' Meeting may only make a decision resulting in the withdrawal of the shares of the Company from the stock exchange, including the decision leading to the cancellation of the securities series as a sanction, in the events specified under the currently effective capital markets and stock exchange rules.

22. Legal disputes

22.1. The Arbitration Court attached to the Hungarian Chamber of Commerce and Industry shall decide any legal dispute arising from the present Statutes among shareholders.

22.2 The Company shall be entitled to apply to the courts against the decisions or instructions of the Board of Directors of the Central Bank as per the Integration Act, also under the rules of judicial review of corporate resolutions. Applying to the court shall have no suspensive effect, and the decision or instruction shall be implemented within the deadline designated therein, regardless of the procedure.

22.3 The Company shall be entitled to apply to the courts against the instruction or decision of the Integration Organization addressed to it, to establish whether the instruction or the decision is in line with the law, other legislation, and the regulations and determined directives issued by the Integration Organization and the other regulations of the integration. Applying to the court shall have no suspensive effect, and the instruction or decision shall be implemented within the deadline designated therein, regardless of the procedure.

23. Announcement

The Company shall publish its announcements on its own website (www.takarek.hu), on the website operated by the Central Bank of Hungary (www.kozzetetelek.hu), and the website of the Budapest Stock Exchange. An announcement shall also be published in the Companies Gazette if required by law or these Statutes. Publication of an announcement on the website of the Company shall replace any and all other publication related obligations where such replacement is allowed by law and other applicable regulations.

24. Closing provisions

By virtue of Resolution No. […] of the General Shareholders' Meeting of Takarék Mortgage Bank Plc. approved the above amendments to the Statutes of the Company.

* * *

The present Statutes shall enter into force on the 25th of April 2019.

***

Törölt: 7

Törölt: September

Törölt: 8

The Statutes entered into force on 25th of April 2019.

Törölt: 27th September 2018.

ANNEX NO. 1.

AUTHORIZATION OF NOMINEE

The undersigned ____, duly authorized representative(s) of

____
(Name/Corporate name of shareholder)

(registered seat: ___________________________; registration number: __________________; hereinafter: the „**Shareholder**") entered in the Register of shareholders of Takarék Mortgage Bank Public Limited Company (1082 Budapest, Üllői út 48., Register of Companies number: 01-10-043638) (hereinafter: the "**Company**") hereby appoint and authorize

____
(Name of nominee)

(mother's name: __________________; address: __________________; ID card number: __________________), to act on my behalf and represent me as my nominee and exercise my rights as a shareholder with full power of attorney at the annual regular/extraordinary General Shareholders' Meeting of Takarék Mortgage Bank to be held on __ ____________ 201... or, in the event of an absence of a quorum, at the repeated General Shareholders' Meeting reconvened at the date and venue stipulated in the announcement.

Törölt: FHB

__________________, __ ______________ 20....

_______________	_______________
on behalf of the Shareholder	on behalf of the Shareholder

In witness thereof:

Name:	Name:
Address:	Address:
Signature:	Signature:

ANNEX NO. 2.

AUTHORIZATION OF NOMINEE

The undersigned ______________________, a shareholder (hereinafter: the "**Shareholder**") duly entered in the Register of shareholders of Takarék Mortgage Bank Public Limited Company (1082 Budapest, Üllői út 48., Register of Companies number: 01-10-043638) (hereinafter: the "**Company**") by virtue of this Deed of Authorization of Nominee hereby appoint and authorize

____
(Name of nominee)

(mother's name: ___________________; address: ___________________; ID card number: ___________________), to act on my behalf and represent me as my nominee and exercise my rights as a shareholder with full power of attorney at the annual regular/extraordinary General Shareholders' Meeting of Takarék Mortgage Bank to be held on __ _____________ 201... or, in the event of an absence of a quorum, at the repeated General Shareholders' Meeting reconvened at the date and venue stipulated in the announcement.

Törölt: FHB

___________________, __ _______________ 20....

_______________ on behalf of the Shareholder

_______________ on behalf of the Shareholder

In witness thereof:

Name:	Name:
Address:	Address:
Signature:	Signature:

Statutes

of

Takarék Mortgage Bank Co. Plc.

Effective date: 25th of April, 2019

STATUTES

PREAMBLE

Takarék Mortgage Bank Co. Plc. (hereinafter as: the “Company”), as a member of the Integration Organization of the Cooperative Credit Institutions (hereinafter as: the Integration Organization) and as a shareholder of the Bank of Hungarian Savings Co-operatives Pte. Ltd., pursues its activities as a cooperative credit institution, as defined in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and on the Amendment of Certain Statutes Related to Matters of Economy (hereinafter as: the “Integration Act”), in accordance with the provisions of its operating license.

The Integration Organization, the Bank of Hungarian Savings Co-operatives Pte. Ltd. and the cooperative credit institutions (hence, the Company as well) defined under the decision of the Central Bank of Hungary (hereinafter as: the “Supervisory Authority” or „MNB”) are subject to joint supervision.

For matters not regulated under these Statutes, the provisions of the Integration Act, Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter as: the Credit Institutions Act), Act CXX of 2001 on the Capital Market (hereinafter as: the Capital Market Act), Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter as: the Investment Firms Act”), Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter as: the “Mortgage Banks Act”), and Act V of 2013 on the Civil Code (hereinafter as: the “Hungarian Civil Code”) shall be applied.

CORPORATE NAME, REGISTERED OFFICE AND SCOPE OF ACTIVITIES OF THE COMPANY

1. Corporate name:

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság

Foreign corporate names of the Company:

In English: Takarék Mortgage Bank Co. Plc
In German: Takarék Hypothekenbank AG

Abbreviated corporate name of the Company: Takarék Jelzálogbank Nyrt.

2. Registered office of the Company:

1082 Budapest, Üllői út 48.

3. Type of the Company:

The Company operates as a public company limited by shares.

According to its position taken among financial institutions, the Company is a mortgage credit institution, as specialized credit institution.

4. Sphere of activities of the Company:

4.1. The Company shall perform its financial service activities as per Section 3 subsection (1) of the Credit Institutions Act and the auxiliary financial services as per Section 3 subsection (2) of the Credit Institutions Act, as well as its activities as per Section 7 subsection (3) of the Credit Institutions Act in line with and subject to the conditions stipulated under the Credit Institutions Act, the Investment Services Act, the Mortgage Banks Act and the other legislation related to financial service activities, based on the license granted by the Supervisory Authority.

4.2. The activity (activities) of the Company carried out in HUF and/or foreign exchange, in line with Resolution no. 345/1998 of the Supervisory Authority, is/are as follows:

Core activity:

6492’08 Other lending

Within the above sphere of activities the Company carries out exclusively the following activities pursuant to Section 3 of Act XXX of 1997 on the Mortgage Banks and Mortgage Bonds, namely:
- acceptance of repayable liquid assets from the public, not including deposit collection,
- provision of cash loan secured by mortgage established on a real property located on the territory of Hungary or a member state of the EEA,
- provision of loans without the stipulation of mortgage in the case of assumption of joint and several suretyship by the state,
- assumption of suretyship and bank guarantee, and other banker’s commitments.

Other business:

6499’08 Other financial mediation not included elsewhere, namely:
- trading activities in respect of foreign exchange swap transactions serving to cover the exchange risk of interest rate swap transactions and the foreign exchange sources thereof.

6619’08 Other activities auxiliary to financial services

5. Field of operation:

Within the frames of the legal rules in force and the relevant licenses, the Company is entitled to carry out its activities or certain elements thereof, and to establish branch institutions or representative offices both in Hungary and abroad.

6. Term:

The Company has been established for an open-ended period. The business year of the Company shall be the same as the calendar year, with the provision that in the year of foundation of the Company, the business year shall commence on the day of registration of the Company into the Companies Register.

REGISTERED CAPITAL AND SHARES OF THE COMPANY, THE RIGHTS AND OBLIGATIONS OF THE SHAREHOLDERS

7. Registered capital

7.1. The registered capital of the Company is HUF 10,849,030,000 that is Ten billion Eight hundred and forty-nine million Thirty thousand Hungarian forints, consisting of cash contribution only.

7.2. With the exception of the increase of the registered capital through the offering of new shares, the Company may also increase its registered capital even if the nominal value of not all of its shares issued earlier has been fully paid yet.

7.3. The General Shareholders' Meeting of the Company may resolve to authorize the Board of Directors to increase the registered capital. The authorization shall stipulate the maximum amount (approved capital) with which the Board of Directors may increase the Company's registered capital in total, over a period of not more than 5 years. When deciding on the authorization to increase the registered capital, the General Shareholders' Meeting shall also decide on the possible exclusion or limitation of the exercise of the preferential subscription right set forth in Article 7.5.

The authorization granted to the Board of Directors to increase the Company's registered capital at the same time authorizes and obliges the Board of Directors to take the decisions relating to the capital increase that would otherwise, by law or by the Statutes, be the competence of the General Shareholders' Meeting, including the amendment of the Statutes necessary because of the capital increase.

7.4. Upon the increase of the registered capital, the General Shareholders' Meeting or the Board of Directors may simultaneously also decide that the person(s) designated in the resolutions of the General Shareholders' Meeting or the Board of Directors shall solely be entitled to receive the new shares or, in the case of a conditional registered capital increase, the convertible bonds to be offered (private increase of registered capital).

7.5. In the course of raising the Company's registered capital by cash contribution, the shareholders of the Company (and, within those, first of all the shareholders possessing shares belonging to the same share series as the newly issued shares) followed by the owners of convertible bonds shall have preferential subscription rights specified in the resolution of the General Shareholders' Meeting; in the case of a capital raise implemented within the competence sphere of the Board of Directors, these conditions are specified in the resolution issued by the Board of Directors.

Through the channels determined in the Statutes the Company shall inform the shareholders and holders of convertible bonds of the possibility and way of exercising the preferential rights to receive the shares including the nominal value and par value of shares that can be obtained in this fashion, as well as of the first and last day of the 15 days period available to exercise such rights.

Upon the written proposal of the Board of Directors, the General Shareholders' Meeting may, however, exclude or restrict the exercising of the preferential subscription right. The reasons for the motion aimed at the exclusion of the preferential subscription right, as well as the planned issue value of the shares shall be indicated in the proposal. The Board of Directors shall put the discussion of the proposal on the agenda in the invitation convening the General Shareholders' Meeting, as part of the item on the agenda concerning the increase of the registered capital, but prior to that. The General Shareholders' Meeting may not adopt a valid resolution on the increase of the registered capital unless a decision is made on the matter of exclusion or restriction of the exercising of the preferential subscription right. The Board of Directors shall make sure that the resolution of the General Shareholders' Meeting is submitted to the Court of Registration and at the same time is published in the places of publication specified in the Statutes.

8. Shares

8.1. he registered capital of the Company is embodied by 80,163,440 pieces (say Eighty million One hundred and sixty-three thousand Four hundred and forty) of registered shares at the face value of HUF100 (say One hundred Hungarian forints) each, and 2,832,686 pieces (Two million Eight hundred and thirty-two thousand Six hundred and eighty-six) of registered shares with the face value of HUF 1,000 (say One thousand Hungarian forints) each.

8.2. Division of the registered capital in the breakdown by share types and share classes:

- 66,000,010 (say Sixty-six million and ten) pieces of series "A" ordinary shares at nominal value of HUF 100 (say One hundred forints) each, of a total nominal value of HUF 6,600,001,000 (say Six billion Six hundred million One thousand forints,
- 14,163,430 pieces (say Fourteen million One hundred and sixty-three thousand Four hundred thirty) of Series "B" preference (dividend preference) shares at the face value of HUF 100 (say One hundred Hungarian forints) each, of a total face value of HUF 1,416,343,000 (say One billion Four hundred and sixteen million Three hundred and forty-three thousand Hungarian forints) and at the issue value of HUF 10.155.179.310 (say Ten billion One hundred and fifty-five million One hundred and seventy-nine thousand Three hundred ten Hungarian forints) each, and 2,832,686 pieces (say Two million Eight hundred and thirty-two thousand Six hundred and eighty-six) of Series "C" ordinary shares at the face value of HUF 1,000 (say One thousand Hungarian forints) each, of a total face value of HUF
- 2,832,686,000 (say Two billion Eight hundred and thirty-two million Six hundred and eighty-six thousand Hungarian forints) and at the issue value of HUF 20,310,358,620 (say Twenty billion Three hundred and ten million Three hundred and fifty-eight thousand Six hundred and twenty Hungarian forints) each.

8.3. The shares of the Company are produced as dematerialized securities in line with the legislative provisions on securities.

9. Transfer and registration of shares

9.1. The shares of the Company may be freely transferred within the scope of the legal rules in force and the present Statutes; they may only be acquired and transferred in the manner defined in a legal rule, solely through debiting and crediting onto securities accounts.

9.2. The Company shall keep a register of shareholders in accordance with the currently effective legislation, these Statutes and the applicable internal regulations. The owner's quality of shareholders is certified by the entry in the register of shareholders of the Company; accordingly, a shareholder may exercise its shareholder's rights towards the Company only if it has been entered in the register of shareholders. The register of shareholders shall be kept by the Board of Directors and the Board of Directors has the right to commission the person(s) defined by law to keep the register of shareholders, in which case the fact of commissioning and the personal data of the commissioned person must be published.

9.3. The Company shall keep the register of shareholders according to the relevant provisions of the Hungarian Civil Code and the Capital Market Act.

9.4. The Board of Directors of the Company, or its agent appointed in accordance with the legal rules applicable to securities, shall keep a register of shareholders, which contains at least the following data:

- name of shareholders and/or their proxies (nominees), as well as address, mother's name and citizenship in the case of natural persons, and registered office in the case of legal entities (e.g. business associations) and individual undertakings;
- if a share has several holders, data of holders and the joint representative;
- number of shares of shareholders in a breakdown by share series, the ratio of their ownership share;
- securities code, as well as series and nominal value of shares;
- type of shares;
- date of entry of the share purchase in the register of shareholders;
- date of withdrawal and destruction (cancellation) of shares;
- file number and date of the supervisory decision related to the acquisition of ownership, if it is required for acquisition of ownership.

In an annex to the register of shareholders, the Board of Directors or its proxy as per the applicable legislation shall keep the data identifying the indirect holding (ownership) of all owners having at least five percent in the Company, calculated according to the provisions of Annex no. 3 of the Credit Institutions Act. The owner holding or acquiring at least five percent ownership interest in the Company must notify the Company of its indirect ownership held in the Company, as well as of any changes thereof, and shall simultaneously also disclose data suitable for identification. The voting right of the shareholder who fails to fulfill its above notification obligation shall be suspended by the Supervisory Authority until the obligation is fulfilled.

9.5. The shareholder shall be responsible for any damage caused to any person through providing untrue information in the course of the entry in the register of shareholders, or failed to fulfill its obligation of information laid down in Articles 9.6 and 9.7.

9.6. Any shareholder entered in the register of shareholders of the Company is obliged to notify the Board of Directors within 30 days in writing of any change in their data registered in the register of shareholders.

9.7. In cases where the ownership of a shareholder ceases by debit to the securities account, the shareholder account keeping financial institution shall notify the keeper of the register of shareholders to that effect within two banking days. Based on the notification the keeper of the register of shareholders must record the change in the register without delay. All data erased from the register of shareholders shall remain legible.

9.8. The Company accepts the proprietary deposit certificate issued by the KELER Central Depository Ltd ("KELER Ltd"), as place of deposit and the securities account extract issued by KELER Zrt. for an appropriate date as certificate of the ownership of the share.

9.9. Senior employees of the Company as per Section 6 subsection (122) of the Credit Institutions Act shall report to the Board of Directors of the Company the shares in their possession issued by the Company.

10. Rights and obligations of shareholders

10.1. Obligations of shareholders:

10.1.1. The responsibility of shareholders against the Company shall extend to the provision of the nominal value or issue value of the share. The shareholder shall otherwise not be responsible for the obligations of the Company.

10.1.2. During the existence of the Company, shareholders may not reclaim any pecuniary contribution made by them. With the exception of the case of reduction of the registered capital, it is prohibited to effect disbursements to shareholders on the basis of their membership legal relationship to the debit of the registered capital.

10.1.3. The provisions of the Capital Markets Act and the Credit Institutions Act shall apply to the acquisition of influence in the Company.

10.2. Rights of shareholders:

10.2.1. Shareholders are entitled to exercise their shareholders' rights in possession of the holder's certificate defined in the provisions of legal rules applicable to shares and securities. A holder's certificate is not required for exercising the shareholders' rights in cases where eligibility is established through the shareholder's verification under the Capital Markets Act and in compliance with the provisions of the Statutes. In addition to the foregoing, compliance with Article 12.1 is also required for exercising the rights of shareholders in connection with the General Shareholders' Meeting.

10.2.2. These rights may be exercised by the shareholder personally or by proxy (a representative) or through a nominee as per the Hungarian Civil Code and the Capital Markets Act. The representative's authorization shall be valid for a General Shareholders' Meeting or a definite period of time, but not more than 12 months. The validity of the representative's authorization shall extend to the continuing of the suspended General Shareholders' Meeting and the General Shareholders' Meeting convened repeatedly as a result of lack of quorum. The power of attorney shall be submitted to the Company in the form of a public deed or a private deed with full probative force. A member of the Board of Directors and of the Supervisory Board may only proceed as representative, if such person as proxy has obvious and written voting instruction in each and every proposal given by the principal. The Auditor of the Company and the property inspector of the Company may not proceed as representatives. The shareholder may appoint a proxy to represent him at the General Shareholders' Meeting by returning the form included in Annex 1 or Annex 2 to the Statutes and supplied by the Company electronically or by mail. The form shall be returned as a private deed with full probative effect not later than by the end of the working day preceding the day of the General Shareholders' Meeting. If a shareholder is represented by more than one proxy and the proxies cast different votes or make different statements, all votes cast and statements made by the proxies shall be null and void.

10.2.3. Shareholders may apply for crediting shares onto a securities account following payment of the total nominal value of their shares, or if the nominal value or the issue value are different, the payment of the total consideration of the latter.

10.2.4. Shareholders shall have a right to a share of the after -tax profits of the Company in proportion to the nominal value of their shares (dividend), pursuant to the legal rules of accounting, ordered to be distributed by the General Shareholders' Meeting. The dividend can be determined with due consideration of the rights assigned under the Statutes to the different share classes.

10.2.5. Shareholders who are registered in the Company's Register of shareholders on the balance sheet day determined by the General Shareholders' Meeting for dividend payment are entitled to receive dividend. At least 20 business days shall lapse between the date of the decision providing for the initial date of dividend payment and the initial date of dividend payment.

10.2.6. In the case of the termination of the Company without a legal successor, shareholders are entitled to a portion of the assets that may be divided as a result of final accounting in proportion to their shares.

10.2.7. Shareholders are entitled to attend the General Shareholders’ Meeting, request information and make observations. The Board of Directors may require the applicant shareholder to sign a non-disclosure agreement as a condition of complying with the request for information or access to documents. The Board of Directors may decline a request for information or access to documents, if it would violate any business, bank, security, or other similar secret of the Company, if the applicant exercises his or her right in an abusive manner or fails to sign a non-disclosure agreement upon request. If the applicant finds the denial of his or her request for information to be unjustified, he or she may ask the Court of Registration to oblige the Company to provide the information. As for items on the agenda of the General Shareholders’ Meeting, the Board of Directors shall provide the shareholders with information necessary to discuss any and all items on the agenda of the General Shareholders’ Meeting, so that the shareholders – upon a written request filed at least 8 days prior to the General Shareholders’ Meeting – shall receive the necessary information at least 3 days prior to the General Shareholders’ Meeting.

10.2.8. Shareholders are entitled to make proposals and – within the frameworks allowed under legislation – to exercise the rights arising from their shares.

10.2.9. Shareholders shall be entitled to all the minority rights provided for by the Hungarian Civil Code.

10.3. The holder of Series “B” dividend preference shares shall be entitled to exercise shareholder's rights with the differences below:

10.3.1. Right to dividend: holder of the Series “B” dividend preference shares shall be entitled to 10% more dividend than the holder of Series “A” ordinary shares from after-tax profit to be distributed among shareholders, provided that dividend is not paid to the holder of dividend preference shares in any financial year, the unpaid dividend may not be paid from the profit of the following years;

10.3.2. Right to vote: holder of the Series “B” dividend preference shares shall not have right to vote, thus he shall not be entitled to vote on the General Shareholders’ Meeting. Where the Company does not pay dividends in any financial year, the voting rights of the holders of dividend preference shares shall be equal to the voting rights related to Series “A” ordinary shares, which right may freely be exercised until the annual account for the following financial year is adopted.

10.4. The holder of Series “C” ordinary shares shall be entitled to exercise shareholder's rights with the differences below:

10.4.1. Right to vote: holder of the Series “C” ordinary shares shall have the same voting right as in case of Series “A” ordinary shares, namely a pieces of Series “C” ordinary share at a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes.

ORGANIZATION OF THE COMPANY

11. General Shareholders' Meeting

11.1. The General Shareholders' Meeting is the supreme organ of the Company.

11.2. The General Shareholders' Meeting shall be convened by the Board of Directors by means of an announcement published in the media determined by the Statutes, at least 30 days prior to the initial date of the General Shareholders' Meeting. The announcement shall contain the following:

a) Corporate name and registered office of shareholders;
b) Date and place of the General Shareholders' Meeting;
c) Agenda of the General Shareholders' Meeting;
d) The conditions stipulated in the Statutes for exercising voting right;
e) The date as long as the name of the shareholder who intends to attend at the General Shareholders' Meeting or the authorized nominee could be registered into the register of shareholders;
f) Terms and conditions on exercising the right on requesting information and complementing the agenda of the General Shareholders' Meeting as defined in the Statutes;
g) Information on the date, place and method of the access of the proposals and draft resolutions in connection with the agenda of the General Shareholders' Meeting (including the website of the Company), and
h) The date and place of the repeated General Shareholders' Meeting in case the General Shareholders' Meeting has no quorum; and
i) The method of holding the General Shareholders' Meeting.

11.3. The General Shareholders' Meeting shall be convened by the Board of Directors, with the exceptions stipulated by law or these Statutes- <u>***to the location defined in the invitation sent by the Board of Directors, or to the seat of the Company in the absence of a decision by the Board of Directors***</u> -, if it is considered necessary for the sake of proper operation of the Company, or if it is required by the Statutes or any piece of legislation. Based on the Integration Act, the Board of Directors shall be obliged to convene the General Shareholders' Meeting of the Company, as soon as possible, if the Board of Directors of the Integration Organization or the Board of Directors of the Central Bank initiated the holding of the General Shareholders' Meeting for purpose of renewing the executive officers.

11.4. The General Shareholders' Meeting shall be convened at least once every year. The Central Bank and the Integration Organization must be notified of the General Shareholders' Meeting, in advance, simultaneously with the publication of the invitation. The invitation, the proposals regarding the agenda items and related materials (if any) must be attached to the notification. In justified cases, the management of the Integration Organization may call upon the Company to prepare proposals to the agenda items specified by the Integration Organization, in their absence, in writing, within 5 business days of the notification. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the General Shareholders' Meeting of the Company with the right of consultation.

Shareholders who indicate in writing their preference to that effect shall also be sent electronic notification of the convocation of the General Shareholders' Meeting in addition to the announcement through the places according to the Statutes of the Company.

The Company shall disclose the material data of the financial statement prepared under the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board, the summary in connection with the numbers of the shares and of the voting rights at the date of the convocation (as well as the separate summary on the classes of shares), the proposals related to the items of the agenda, the supervisory board reports concerning these, the draft resolutions, as well as the forms used for voting through proxies (if not sent to the shareholders directly) at least 21 days prior to the General Shareholders' Meeting according to the provisions of the Statutes of the Company on the publication of the announcements and official statements.

11.5. If the General Shareholders' Meeting has been called in violation of the rules, it may adopt resolutions only in the presence of all shareholders entitled to vote, and only if the shareholders agree to the holding of the General Shareholders' Meeting unanimously.

11.6. Over and above the annual ordinary General Shareholders' Meeting, the Board of Directors shall convene an extraordinary General Shareholders' Meeting in the cases defined in legal rules, if the previous General Shareholders' Meeting or the Board of Directors adopted such a resolution, or if the holder (holders) of shares representing at least 1% of votes so request indicating the reason and the purpose. The General Shareholders' Meeting may also be convened by the Supervisory Board in accordance with Article 15.22. The General Shareholders' Meeting could be convened in 10 days if it should decide about raising the capital of the company in order to avoid the restructuring proceeding of the supervisory authority according to the Act XXXVII of 2014 on measures, extraordinary measures and developing the security of the financial intermediation services.

11.7. The shareholders may exercise their shareholder rights in person, or through their representatives, in line with Article 10.2.2.

11.8. The General Shareholders' Meeting has a quorum if more than half of the shareholders representing the votes embodied by the shares authorizing to vote are in attendance. If the General Shareholders' Meeting has no quorum, the second General Shareholders' Meeting convened on a date defined in the original announcement shall have quorum regarding the issues included on the original agenda, irrespective of the persons in attendance. A General Shareholders' Meeting repeated due to the lack of a quorum may be reconvened to a day 10 to 21 days after the original date.

11.9. The person requested by the Board of Directors shall proceed as Chairman of the General Shareholders' Meeting. The mandate of the Chairman of the General

Shareholders’ Meeting shall be valid for the given General Shareholders’ Meeting as well as the repeated or continued General Shareholders’ Meeting.

11.10. The Chairman may suspend the General Shareholders’ Meeting not more than once. In such a case the General Shareholders’ Meeting must be resumed within 30 days. In such instances the rules for the convocation of the General Shareholders’ Meeting and election of its officers shall not be applied.

12. Competence of the General Shareholders’ Meeting, order of adoption of resolutions and exercise of the voting right

12.1. Right to one vote and each Series “C” ordinary share of a face value of HUF 1,000 (say One thousand Hungarian forints) shall give right to ten votes at the General Shareholders’ Meeting. At the General Shareholders’ Meeting shareholders’ verification is carried out as defined by the Capital Markets Act, the Stock Exchange Rules and in the Rules of KELER Zrt., and the turning date of owner's compliance may only fall on the period between the 7th and the 3rd stock exchange days preceding the General Shareholders’ Meeting. That shareholder may exercise his/her/its membership rights at the General Shareholders’ Meeting, who – is the holder of the share – on the date shareholder's verification and whose name is entered in the register of shareholders at – (its closure) – 6.00 p.m. CET on the 2nd day proceeding the General Shareholders’ Meeting.

Closure of the register of shareholders shall not limit the right of the holder entered therein to transfer shares after such closure. Nor does the transfer of shares before the day of opening of the General Shareholders’ Meeting exclude the right of the holder on the register to participate in the General Shareholders’ Meeting and exercise his shareholder’s rights.

12.2. The General Shareholders’ Meeting shall adopt a resolution on the matters included on the agenda in open voting, using a computerized vote counter, by producing the voting-paper, or in any other manner suitable for counting votes. In the absence of any different decision by the General Shareholders’ Meeting, voting shall be effected in a breakdown by draft resolutions. The parties vested with the right of vote shall first vote about the amending draft resolutions, and then about the original draft resolutions. The proposal shall be considered rejected in case of tie. If tie exists in any issue in which a decision shall be taken, on a compulsory basis, through a provision of a legal rule, the issue must be included on the agenda again.

12.3. The following shall fall within the exclusive competence of the General Shareholders’ Meeting:

a) establishment and amendment of the Statutes;
b) passing of the decision on the change of the type of the Company;
c) crease and reduction of the registered capital, including the authorization granted to the Board of Directors to increase the registered capital, as defined in Articles 7.3 and 7.4;
d) decision on the merger and consolidation, merger, demerger of the Company with another company limited by shares, or its termination without a legal successor, or the transformation of the Company into another corporate form;

e) election, recall and establishment of the remuneration of the members of the Board of Directors;
f) election, recall and establishment of the remuneration of the members of the Supervisory Board;
g) election, recall and establishment of the remuneration of the members of the Auditor;
h) providing financial assistance to third parties for acquiring shares issued by the Company;
i) acceptance of the report drawn up in accordance with the Accounting Act and making a decision on the use of after-tax profit;
j) decision on the payment of dividend and interim dividend, except for the case stipulated in 14.19.1 e);
k) he evaluation of the work of the executive officers performed during the previous business year, as required under the Hungarian Civil Code, and decision on the relief that may be granted to them;
l) change of rights attached to the individual share series, and transformation of the individual share types and classes;
m) decision making on the issue of convertible bonds or bonds providing subscription right;
n) decision on exclusion of the priority of subscription;
o) decision on the acquisition of own shares, unless the acquisition of own shares is required in the interest of avoiding any serious damage threatening the Company, and on the acceptance of a public bid received for own share;
p) decision on steps to disturb a public bid procedure;
q) approval of the Rules of Procedure of the Supervisory Board;
r) approval of the Corporate Governance Report;
s) decision on preparing the establishment of a recognized group of companies and on the contents of the holding contract;
t) approval of the draft of the holding contract;
u) decision on the application for the cancellation of the shares of the Company from any stock exchange or subscription system;
v) the approval of the guidelines of remuneration which shall be published on the official homepage of the Company within 30 days counted from its approval;
w) decision on all issues referred to the exclusive competence of the General Shareholders' Meeting by law or the Statutes.

12.4. The Company's Board of Directors shall be authorized to modify the registered office, the business premises, the branch offices or the scope of business – except for the core business – of the Company and to amend the Statutes of the Company accordingly.

12.5. In case the consent or approval of the Integration Organization and the Central Bank is required for the decision of the General Shareholders' Meeting according to the Integration Act or the Statutes of the Integration Organization, the management of the Company shall be responsible for obtaining the permits required.

12.6. The prior consent of the Integration Organization shall be required for amendment or approval of the statutes.

12.7. The General Shareholders' Meeting shall adopt its resolutions on issues falling within its competence by at least the simple majority of the votes approving the draft resolution except for matters specified by Section 3:102, Section 3:211 subsection (3) and Section 3:276 of the Hungarian Civil Code and all other cases specified by law where the approval of a 3/4 (three-quarter) majority of the shareholders attending - or if the law provides otherwise then according to the conditions set out therein - is required for the adoption of the resolution concerned. Abstention shall qualify as "no" vote.

12.8. The General Shareholders' Meeting shall adopt a resolution on all issues submitted to the General Shareholders' Meeting by the Board of Directors, the Supervisory Board or the shareholder(s) representing at least 1% of shares. If shareholders who hold at least 1% of the votes notify the Board of Directors about their proposal for the amendment of the agenda – with all the details required for items of the agenda – or about a draft resolution relating to an item on, or to be added to, the agenda within 8 days after publishing the announcement of calling the General Shareholders' Meeting, the Board of Directors shall publish an announcement regarding the updated agenda or the draft resolution proposed by the shareholders after being notified about the proposal. The issue specified in the announcement shall be deemed as put on the agenda.

12.9. A resolution of the General Shareholders' Meeting aimed at the transformation of the form of public (open) operation of the Company into private, may be adopted if at least a 3/4 (three-quarters) majority of shareholders who separately represent not more than 1% of votes gave its prior consent thereto. In connection with the prior consent, the Board of Directors shall be obliged to call upon the concerned shareholders of the Company, in the announcement containing the invitation to the General Shareholders' Meeting, to send their statements whether they give their consent or not. The shareholders concerned shall send the position taken up by them to the registered office of the Company, in writing, addressed to the Board of Directors, until the deadline indicated in the announcement, which shall be at least the second day following the reporting date of the shareholder identification procedure connected to the General Shareholders' Meeting deciding about the change of the public operation form of the Company to a private operation form. Should a shareholder fail to make any statement within the time limit set in the announcement, the shareholder shall be considered as if they gave their consent. Several consents may not be validly made on the basis of a given share. The Board of Directors of the Company shall determine the scope of shareholders concerned, on the basis of the data contained in the shareholder identification connected to the General Shareholders' Meeting deciding about the change of the public operation form of the Company to a private operation form.

12.10. The resolution of the General Shareholders' Meeting as per paragraphs (c) and (l) of Article 12.3 can be adopted if more than half of the shareholders holding the concerned share types or share series present at the given General Shareholders' Meeting have granted their separate consent to this. The votes cast by the shareholders of the concerned share types or share series shall be evaluated separately as well, in terms of this consent, in the course of determining the results of the vote, and, if necessary, a separate voting must be held for these shareholders. A share type or share series is considered as "a concerned share type or share series" if the resolution of the General Shareholders' Meeting directly and adversely modifies a shareholder right defined in these Statutes, attached to the given share type or share series. In the course of the aforementioned, the provisions applicable to the possible restriction or exclusion of the voting right attached to the share (excluding the prohibition to exercise the voting right related to the own shares) shall not apply. Based on the authorization specified in the resolution of the General Shareholders' Meeting passed according to the provisions of this Article, the consent required under law for the resolution passed by other bodies of the Company is deemed to have been granted.

13. Officers of the General Shareholders' Meeting and their work

13.1. The Chairman of the General Shareholders' Meeting shall
- conduct the discussion in the order indicated in the announcement on the convocation of the General Shareholders' Meeting;
- order the votes;
- sign and request a shareholder in attendance to authenticate the minutes to be taken in connection with the discussion and the resolutions.

13.2. Minutes shall be drawn up of the General Shareholders' Meeting, which shall contain the following:
- corporate name and registered office of the Company;
- method, place, and date of holding the General Shareholders' Meeting;
- name of the Chairman of the General Shareholders' Meeting, the keeper of the minutes, the certifier of the minutes and the person counting the votes;
- important events and proposals made during the General Shareholders' Meeting;
- draft resolutions, the number of each share for which a valid vote was cast for a given resolution, the capital share represented by such votes, the number of votes cast for and against the proposal, and the number of abstains;
- objection of the shareholder, a member of the Board of Directors or of the Supervisory Board to a resolution if so requested by the objecting person.

13.3. The minutes shall be signed by the keeper of the minutes and the Chairman of the General Shareholders' Meeting and authenticated by a shareholder in attendance and elected for that purpose. The minutes recorded at the General Shareholders' Meeting shall be sent to the Central Bank, the Integration Organization and the Supervisory Authority within 15 days of the date of the General Shareholders' Meeting.

14. Board of Directors

14.1. The Board of Directors is the managing body of the Company, and the members of the Board of Directors shall qualify as officers. The Company is managed by the Board of Directors, acting as a body. The Board of Directors shall represent the Company towards third parties, vis-á -vis courts and other authorities. Shareholders cannot vindicate the competencies of officers. The provisions of the Hungarian Civil Code shall be applicable to the liability of executive officers.

14.2. Only natural persons can be elected as members of the Board of Directors. The Board is made up of at least 5 and no more than 11 members. The Board of Directors shall be elected by the General Shareholders' Meeting from among shareholders and other persons. At least two members of the Board of Directors shall be employed by the Company (hereinafter referred to as internal members). Furthermore, at least 2 members of the Board of Directors shall be Hungarian citizens, residents for foreign exchange purposes, and shall have permanent residence in Hungary for at least 1 year.

14.3. The managing directors of the Company may be elected as internal members of the Board of Directors. In the case of termination of employment of the internal members of the Board of Directors, the membership of the Board of Directors shall, simultaneously, cease to exist.

14.4. Those who acted as auditors of the Company or any other financial institution in close relationship with the Company in the preceding 3 years may not be members of the Board of Directors. A person may not hold a seat on the Supervisory Board either, if he/she fails to meet the requirements set forth by law or in the Rules on the eligibility of executive officers and the control of eligibility issued by the Integration Organization.

14.5. Members of the Board of Director may not acquire shares in another business organization pursuing the same main activity as the Company, with the exception of the Central Bank, other legal entity falling under the consolidated supervision with the Company or public limited companies, and may not be officers of another business organization pursuing the same main activity as the Company (excluding the Central Bank, other legal entity subject to the consolidated supervision of the Company) except with the approval of the General Shareholders' Meeting. Members of the Board of Directors and their relatives may not engage in transactions, on their behalf or to their own benefit, which fall within the core activities of the Company, with the exceptions stipulated by law. The executive officer of the Company can be an executive officer, without limitations, in a legal entity (falling under consolidated supervision with the Company) that is engaged, as its core activity, in pursuing the same economic activity as the Company. If the executive officer of the Company accepts a new executive officer appointment, they shall be obliged to report this fact to the Company within 15 days from acceptance of the given position.

14.6. The mandate of the members of the Board of Directors shall last for 5 years from the date of their election. The members of the Board of Directors may be called back at any time and can be re-elected following the expiry of their mandate.

14.7. Members of the Board of Directors may waive their office at any time, but if so required by the operability of the Company, in particular if the actual number of the members of the Board of Directors fell below the number specified as a minimum in Article 14.2, or the number of internal members fell below 2 as a result of resignation, resignation will only become effective on the sixtieth day reckoned from the announcement thereof, unless the General Shareholders' Meeting provided for the election of the new member prior to that.

14.8. The Board of Directors shall elect a Chairman from among its members.

14.9. The Chairman of the Board of Directors (in his/her absence, any member of the Board of Directors designated by him/her) shall organize the work of the Board of

Directors, and shall provide for the effective operation thereof. Within the framework thereof, he/she shall, in particular:

- convene the meeting of the Board of Directors in writing, 5 days prior to the date of the meeting, with the exception of the case of a decision that may not be postponed;
- provide for sending the proposals and keeping the minutes;
- chair the meeting and order voting; as well as
- chair the General Shareholders' Meeting, if necessary, until the Chairman of the General Shareholders' Meeting is elected.

14.10. The Board of Directors shall hold a meeting at least once every three months, however, the Chairman of the Board of Directors may convene the Board of Directors at any time. The Chairman shall be obliged to convene the Board of Directors upon request of two members and in all cases prescribed by law. The meetings shall be convened by the Chairman or the Board of Directors or the member appointed by him/her by an invitation forwarded at least 5 (five) business days before the date of the meeting. The Chairman of the Board of Directors shall notify the Integration Organization and the Central Bank of the meeting of the Board of Directors, in advance, by sending the invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The authorized representatives of the Integration Organization and the Central Bank shall be entitled to attend the meetings of the Board of Directors with the right of consultation. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all related documents, if any, shall be attached to the invitation. In justified cases, the management of the Integration Organization may call upon the Company to prepare proposals to the agenda items specified by the Integration Organization, in writing, within 3 business days of the notification. A resolution on any matter not included in the agenda may only be adopted if all members or the representative of the Integration Organization or the Central Bank is present at the meeting, or participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and consent to discuss the matter not included amongst the agenda items. The Board of Directors may not adopt a valid resolution if the above obligations are breached. The Chairman of the Supervisory Board or a member of the Supervisory Board designated by him/her shall be entitled to take part in the meeting of the Board of Directors as a person invited on a permanent basis.

14.11. The Board of Directors has a quorum if at least half of its members are in attendance at the meeting. The Board of Directors has no quorum if the provisions of Article 14.10 are breached. The simple majority vote of the members present is required for the adoption of a resolution of the Board of Directors unless otherwise regulated by law or these Statutes.

14.12. Minutes shall be drawn up of the meetings of the Board of Directors. The minutes shall contain:

- lace and date of the meeting of the Board of Directors,
- name of the members of the Board of Directors present,
- proposals set forth,
- decisions made, and any objections to such decisions.

Members of the Board of Directors may request to enter their opinion word for word in the minutes.

14.13. The minutes shall be signed by the Chairman of the meeting, by two further members of the Board of Directors in attendance and by the keeper of the minutes. The minutes shall be sent to all members of the Board of Directors and to the Chairman of the Supervisory Board, furthermore to the Integration Organization and the Central Bank, within 15 days following the meeting, irrespective of whether they attended the meeting or not.

14.14. The members of the Board of Directors are entitled to participate in the meeting of the Board of Directors by means of electronic communication devices, the detailed rules of which are set out by the rules of procedure of the body.

14.15. The Board of Directors may only adopt a valid resolution outside a meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Board of Directors cast their votes in a private deed with full probative force and send it to the registered office of the Company within 2 business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Board of Directors.

The provisions of Article 14.10 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, mutatis mutandis, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Board of Directors may not adopt a valid resolution if the above obligations are breached.

14.16. The operation of the Board of Directors shall be regulated in detail by the rules of procedure of the Board of Directors. The rules of procedure shall be elaborated by the Board of Directors itself within the framework set out by these Statutes.

14.17. The Board of Directors shall manage and control the business operations of the Company. Within the scope of the Statutes, it is entitled to take all measures that are not reserved exclusively for the General Shareholders' Meeting. The Board of Directors will be responsible for ensuring prudent operation and compliance with risk taking and capital adequacy provisions at the level of the businesses under the Company's controlling influence. The Board of Directors will exercise ownership rights in the case of businesses owned by the Company, or being under the controlling influence of the Company.

14.18. The Board of Directors shall:

- prepare the report of the Company pursuant to the Accounting Act and the proposal for the use of profits, and to submit them to the General Shareholders' Meeting together with the report of the Board of Directors;
- prepare the Company's report on responsible corporate governance and submit it to the General Shareholders' Meeting together with the report of the Supervisory Board;

- prepare a report for the General Shareholders’ Meeting on an annual basis, and in every three months for the Supervisory Board on management, as well as on the pecuniary situation and business policy of the Company (including the subsidiaries of the Company involved in the consolidation);
- convene the ordinary General Shareholders’ Meeting once annually, and convene the extraordinary General Shareholders’ Meeting within 8 days, with the simultaneous notification of the Supervisory Board, if it comes to the knowledge of any of its members that as a result of the losses the equity of the Company has dropped to two-thirds of the registered capital or below the minimum level set forth in the Hungarian Civil Code, or if it comes to its knowledge that the Company is threatened by insolvency or has stopped its payments or its assets do not cover its liabilities;
- provide for keeping the business books of the Company in accordance with the rules;
- provide for keeping the register of shareholders and possibility for looking into the register of shareholders at any time in working hours;
- make a decision on the acquisition of the own shares of the Company, if it is necessary in the interest of avoiding a serious damage threatening the Company;
- ensure prudent operation, and compliance with risk taking and capital adequacy provisions at the level of all the businesses under the Company’s controlling influence;
- send its Rule of Procedures to the Integration Organization within 5 days from the date of its approval or modification;
- send all of its policies and regulations that are required by the regulations published by the Integration Organization or the Central Bank, within 15 days following entry into force of the given policy or regulation.

14.19. The competence of the Board of Directors

14.19.1. Competences in relation to the strategy, business and financial activities of the Company:

a) Approval of strategic and business policy objectives;
b) Establishment and approval of annual business and financial plans, as well as the business policy;
c) Analysis and assessment of the implementation of the business policy guidelines on the basis of the quarterly balance sheets of the Company;
d) Management of the finances of the Company, approval of the Accounting Policy and the related internal rules;
e) The Board of Directors is entitled to approve an interim balance sheet, and to pass resolutions on the payment of initial dividend with, however, the prior consent of the Supervisory Board;
f) Establishment of risk management guidelines that ensure the assessment of risk factors as well as the suitability of internal control mechanisms and the regulatory and the supervisory systems for their management, and ensure legal compliance;
g) Approval and regular revision of the strategies and rules (as for the rules containing the qualification and estimation processes relating to the credit and operating risks) regarding the separation of tasks inside the organization, the prevention of conflict of interest, taking, measuring, handling, tracing and reduction of risks;

h) Approval the internal rules regarding the principles of disclosure in connection with risk management;
i) Establishment of the strategy and procedure relating to the determination and permanent maintenance of the capital, the extent and composition thereof, required for covering the Company's current and future risks;
j) j)Establishment of the decision-making competence (limits) relating to financial services;
k) Decision on loan placements 10% over the guarantee capital of the Company (excluding inter-bank financial transactions);
l) Decision on investments with a volume, which from an accounting perspective represents more than 5% of the prevailing equity capital;
m) Decision on the commencement, suspension or termination of the performance of certain activities falling within the licensed sphere of activities of the Company (Article 4.);
n) Determination of the terms and conditions of the contract of agency to be entered into with the property inspector;
o) Establishment of the Treasury's operating procedures on the money and capital market, its rules for entering into and administering deals;
p) Approval of rules for collateral registration, rules on risk taking and large-risk taking, and security valuation;
q) Decision on issues of receivables-property exchanges (forced investments) over HUF 200 million;
r) Sales of individual bad debts of individual customers or customer groups with a loss over HUF 50 million.

14.19.2. Duties and competences related to the operation and organization of the Company:

a) Convocation of the General Shareholders' Meeting of the Company;
b) Maintaining contacts with the shareholders at a proper level and with the necessary frequency;
c) Maintaining contacts with the Supervisory Board and preparation of reports to be submitted to the Supervisory Board
d) Continuous monitoring of the efficiency of corporate management;
e) Management of major conflicts of interest having an effect on the whole organization or on the operation of the Company;
f) Approval of significant organizational changes (discontinuation or establishment of units);
g) Establishment of measures and the plan for taking measures which become necessary as a result of the findings of the National Bank of Hungary;
h) Establishment of a financial incentive system;
i) Approval of rules of employer's loans.

14.19.3. Competences in relation to the increase of share capital and the acquisition of own shares:

a) The Board of Directors is entitled – upon basis of and according to the authorization set forth by this Statues - to increase the share capital of the Company granted by the General Shareholders' Meeting;

b) The Board of Directors is entitled to make decisions on transactions related to own shares upon, and to the extent of, authorization by the General Shareholders' Meeting;
c) The Board of Directors is entitled to make decisions on the acquisition of the Company's own shares without authorization by the General Shareholders' Meeting provided such acquisition is required in order to avoid serious damage to the Company.

14.19.4. Competences in relation to the management of the Group, foundation of companies and investment:
a) Decision on the acquisition or sales of a company or a business activity in cases where the volume of such transaction exceeds 100 million HUF and participation reaches the level of influence;
b) Decision on the issues falling within the sphere of authority of the supreme body in respect of one-person businesses owned by the Company, and exercise of owner's rights;
c) Exercise of member's rights as set forth in the Hungarian Civil Code in the case of business associations under the controlling influence of the Company;
d) Instruction to the boards of credit institutions, financial enterprises and subsidiary businesses in which the Company holds interest over 50% in the interest of compliance with, and implementation of, joint supervisory provisions.

14.19.5. Rights in relation to the representation of the Company:
a) Development of, and monitoring compliance with, guidelines regarding the disclosure of information to be published pursuant to the relevant statutory provisions;
b) Exercise of employer's rights over the chief executives (chief executives: the Chief Executive Officer and the Deputy Chief Executive Officers);
c) Appointment of the employees authorized to sign for the Company to be entered in the Register of Companies, and approval of the internal rules containing the rules of procedure relating to the transfer of the joint right to signature of two internal members of the Board of Directors.

14.19.6. Rights related to own operation:
a) Making proposals, as required, for the appointment of members to the Board of Directors, and for the remuneration of the members of the Board of Directors;
b) Election and removal of the Chairman of the Board of Directors;
c) Approval and modification of the rules of procedure of the body;
d) entitled to form standing or ad hoc committees with the participation of board members and/or persons outside the Board (employees, external experts, etc.), and to give the necessary authorizations to these bodies;
e) The Board of Directors is entitled to use the services of external consultants or experts for the implementation of its activity
f) Supervision of the execution of the resolutions passed by the Board of Directors.

14.19.7. Other competences:

a) Decision in all matters delegated to the Board of Directors by the General Shareholders’ Meeting;
b) Decision in all matters delegated to the Board of Directors by legislation, or matters outside the exclusive competence of the General Shareholders’ Meeting that are included by the Board within its own sphere of competence, or those that any member of the Board of Directors or the Supervisory Board wishes to discuss;
c) Receipt of reports on current matters within its own competence.

14.20. The employer’s rights specified in Article 14.19.5 b) shall be exercised by the Board of Directors. Unless otherwise decided by the Board of Directors, the employer’s rights relating to other employees of the Company shall be exercised by the chief executive officer.

14.21. The Board of Directors is entitled, without an authorization of the General Shareholders’ Meeting received in advance, to acquire own shares of the Company in a quantity stipulated in the statutory provisions, given that the acquisition is required in the interest of avoiding a serious damage directly threatening the Company. In such cases, the Board of Directors is obliged to disclose information at the next General Shareholders’ Meeting on the reasons of acquiring the Company’s own shares, on the number and total face value of the acquired shares, as well as on the proportion of these shares in terms of the Company’s total registered capital and the amount paid for these shares..

15. Supervisory Board

15.1. Natural persons may only be members of the Supervisory Board.

15.2. The Supervisory Board shall consist of a minimum of 3 and a maximum of 9 members, the majority of whom – but at least 3 members – shall be made up of independent persons (as specified by the Hungarian Civil Code), and with the exception of persons representing the employees, shall not have an employment relationship with the Company. Supervisory Board members are elected by the General Shareholders’ Meeting, for a maximum period of 5 years. The Chairman shall convene the General Shareholders’ Meeting, if the number of the members of the Supervisory Board falls below 3.

15.3. Members of the Supervisory Board must be of legal age and must have full legal capacity in the scope required for discharging his functions. A person who is subject to any grounds for exclusion applicable to executive officers (as specified by the Hungarian Civil Code), may not hold a seat on the Supervisory Board, nor any person who himself or whose family member holds an executive office (as specified by Section 8:1 subsection (2) of the Hungarian Civil Code) in the Company, nor any person who fails to meet the requirements set forth in the Rules on the eligibility of executive officers and the control of eligibility issued by the Integration Organization.

15.4. Members of the Supervisory Board shall participate in the work of the Supervisory Board personally. Members of the Supervisory Board are independent from the Company's Board of Directors and may not be instructed in their capacity as such.

15.5. Members of the Supervisory Board may be revoked at any time and may be re-elected following the expiration of their mandate. The rules set out in Section 3:25 of the Hungarian Civil Code on the termination of the mandate of executive officers shall apply to the termination of the membership in the Supervisory Board, with the provision that the letter of resignation of the Supervisory Board member shall be addressed to the Board of Directors of the Company.

15.6. The Supervisory Board shall elect a Chairman from its members.

15.7. If the provision in the Statutes – that was approved with the consent of the Works Council – does not preclude, one-third of the members of the Supervisory Board, i.e. the representatives of employees shall be designated by the Works Council, if the annual average number of full-time employees of the Company is in excess of 200 persons.

Person designated by the Works Council shall be given a seat on the Supervisory Board by the General Shareholders' Meeting at the first meeting following such designation, unless a disqualifying reason defined by law exists towards the candidates.

15.8. The Supervisory Board shall hold a meeting when necessary, but at least every 3 months. The Chairman of the Supervisory Board shall be entitled to convene the meeting of the Supervisory Board at any time. Any member of the Supervisory Board may request the Chairman to convene the meeting of the Supervisory Board in writing, by indicating the reasons and goal thereof, and the Chairman, within 10 days, shall take all measures which are necessary for the convocation of the Supervisory Board meeting to a date within 30 days. If the Chairman fails to convene the Supervisory Board meeting pursuant to the above, the member shall become entitled to do so. The convocation of the Supervisory Board may also be requested in writing by the Chairman or two members of the Board of Directors.

15.9. The meetings shall be convened by the Chairman by a written invitation sent in an electronic message or in the form of a deed. The Integration Organization and the Central Bank shall be notified of the meeting of the Supervisory Board by an invitation and the attached documents described herein, simultaneously with sending the invitation to the members, but at least 5 business days prior to the meeting. The invitation shall contain the meeting's agenda; the proposals relating to each agenda item and all pertaining documents, if any, shall be attached to the invitation and shall be sent in an electronic or printed format to the Supervisory Board members as well as the Central Bank and the Integration Organization. A resolution on any matter not included in the agenda may only be adopted if all members or the representative of the Central Bank or the Integration Organization is present at the meeting, or participate in the meeting by telephone or video conferencing (electronic communication device) if this is feasible, and consent to discuss the matter not included amongst the agenda items. The authorized representatives of the Central Bank and the Integration Organization shall be entitled to attend the Supervisory

Board meetings with the right of consultation. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations.

15.10. The Supervisory Board has a quorum, if two-thirds of its members, but at least 3 members are in attendance. It shall adopt its resolutions by simple majority of votes. The Supervisory Board has no quorum, if the Integration Organization and the Central Bank have not been invited to the Supervisory Board meeting at least 5 business days before the meeting by an invitation to which all materials, proposals relevant to the agenda items have been attached.

15.11. The Chairman of the Company's Board of Directors, the Chief Executive Officer or the person appointed by him/her, the Continuing Auditor shall be entitled to attend the Supervisory Board meeting with a right of consultation; the Continuing Auditor must attend the Supervisory Board meeting if the Supervisory Board so requests. The Supervisory Board shall be obliged to put on the agenda all matters proposed to be discussed by the Continuing Auditor.

15.12. Minutes shall be drawn up of the meetings of the Supervisory Board. The minutes shall contain:

- place and date of the meeting,
- name of the members present,
- the motions put forward,
- decisions made, and any objections to such decisions.

Members of the Supervisory Board may request to enter their opinion word for word in the minutes.

The minutes shall be signed by the Chairman of the meeting and two further members of the Supervisory Board present at the meeting. The minutes shall be sent to all members of the Supervisory Board within 15 days following the meeting, irrespective of whether they attended the meeting or not.

15.13. Members of the Supervisory Board may participate in the meetings of the Supervisory Board by means of broadcast of electronic communications devices, the detailed rules of which is set out in the Rules of Procedure of the Supervisory Board.

15.14. The Supervisory Board may only adopt a valid resolution outside the meeting (in other words: without convening and holding a meeting, that is by telephone, facsimile, electronic messages or in any other similar way) if more than half of the members of the Supervisory Board put their votes in a private deed with full probative force and send it to the registered office of the Company within 2 business days after the notice about the adoption of resolutions outside the meeting and the related documents (hence, in particular: the motions and the voting sheets) are sent to the members of the Supervisory Board.

The provisions of Article 15.9 regulating the prior notice to be sent to the integration Organization and the Central Bank shall be applied, mutatis mutandis, in respect of resolutions adopted outside of a meeting, with the proviso that in case the Central Bank or the Integration Organization so requests, a proper meeting of the body shall be held. The Supervisory Board may not adopt valid resolutions in case of breach of these obligations.

15.15. The Supervisory Board shall establish its rules of procedure itself, subject to the rules stipulated in the Statutes, which shall be approved by the General Shareholders' Meeting.

15.16. The Supervisory Board supervises the management of the Company. As part of this activity, it may request reports or information from the members of the Board of Directors or the employees of the Company, and may examine the documents and books of the Company or may commission experts to examine such documents. The Company provides access for the Supervisory Board to the information concerning the risks of the credit institution, the risk control function, and the opinions of third party experts. Any member of the Supervisory Board may motion to invite a report or ask for information orally at the meeting of the Supervisory Board or, outside the meeting, in a written request addressed to the Chairman of the Supervisory Board and the Chairman of the Board of Directors. The report or information requested shall be sent by the Chairman of the Supervisory Board within fifteen days from the meeting of the Supervisory Board, or from receipt of the written request. The Supervisory Board shall examine the report drawn up in accordance with the Hungarian Accounting Act, the proposal on the use of after-tax profit, furthermore, any and all proposals relating to a matter falling within the competence of the General Shareholders' Meeting. The findings of this examination shall be presented by the Chairman of the Supervisory Board. Without being aware of the contents of the written report of the Supervisory Board, the General Shareholders' Meeting may not adopt a valid resolution on the report drawn up in accordance with the Accounting Act and the use of after-tax profits.

15.17. In addition to Article 15.16, the Supervisory Board shall be responsible, in particular, for

a) ensuring that the Company has a comprehensive control plan suitable for profitable operation;
b) making a proposal for the Auditor as a company, or a human being; and his/her/its remuneration, on basis of the preliminary proposal of the management and the recommendation of the Audit Committee;
c) *
d) monitoring the auditor's compliance with the prescribed professional requirements, conflict of interests and requirements on his/her/its independence, taking care of activities related to the cooperation with the auditor, monitoring other services provided by the auditor to the Company in addition to the audit of the financial statements according to the Hungarian Accounting Act, furthermore – if required – making proposals to the Board of Directors on taking certain actions;
e) commenting the financial statements prepared according to the Hungarian Accounting Act and monitoring their audit;
f) inspecting the annual and interim financial reports of the Company (including consolidated reports);
g) valuating the financial accounting system's operation and making proposals on taking the necessary measures;
h) directing the internal audit organization, and as part of this activity;

1. accepting the annual audit plan of the internal audit organization;
2. discussing the reports prepared by the internal audit at least semi-annually, and controlling the execution of the actions required;
3. if required, supporting the work of the internal audit by engaging the services of an external expert;
4. making a proposal on changing the headcount of the internal audit organization;
5. Prior consent is required from the Supervisory Board for decisions made regarding the establishment and termination of the employment of manager and employees of the Internal Audit Organization , and regarding the determination of their remuneration;

i) elaborating recommendations and proposals on the basis of the findings of the examinations conducted by the internal audit organization;
j) discussing the Corporate Governance Report;
k) monitoring the efficiency of the internal audit and the risk management system,
l) helping the work of the Board of Directors in order to properly audit the financial reporting system, and
m) acceptance and review of the principles of the remuneration policy.

15.18. The Chairman of the Supervisory Board shall send, within 10 days following the meeting of the Board, the minutes, proposals and reports relating to an item on the agenda discussed by the Supervisory Board and within 15 days to the Integration Organization and the Central Bank, the subject-matter of which is the gross violation of the internal rules of the Company, or a serious irregularity established in direction and management.

15.19. The members of the Supervisory Board shall attend the General Shareholders' Meeting with the right of consultation.

15.20. The Supervisory Board shall act as a body. It may divide supervisory duties among its members on a permanent basis. Such division of supervisory duties shall not affect the responsibility of the Supervisory Board member, or his right to extend his supervision to other activities falling within the supervisory duties of the Supervisory Board.

15.21. If, in the judgment of the Supervisory Board, the activity of the Board of Directors violates the law, the Statutes of the Company or the resolutions of the General Shareholders' Meeting, or otherwise infringes on the interests of the Company or its shareholders, the Supervisory Board shall convene an extraordinary General Shareholders' Meeting and shall propose its agenda.

15.22. The Supervisory Board may propose, in writing, the convening of a meeting of the Board of Directors and putting specific topics on its agenda.

16. Audit Committee

16.1. The Audit Committee consists of at least 3 and at most 9 persons. The members of the Audit Committee shall be elected by the General Shareholders' Meeting for a period not more than 5 years from among the independent members of the Supervisory Board.

16.2. The Audit Committee supports the Supervisory Board in controlling the financial reporting system, selecting the auditor, and cooperating with the auditor. The competence of the Audit Committee shall include:

a) commenting the financial statements according to the Hungarian Accounting Act and monitoring its audit;
b) producing a recommendation to the Supervisory Board regarding the appointment of the auditor;
c) supporting the preparation of the agreement to be concluded with the auditor;
d) monitoring the auditor's compliance with the prescribed professional and conflict of interests related requirements, taking care of activities related to the cooperation with the auditor, including especially the reviewing and monitoring of other services provided to the Company, and – if required – making proposals to the Supervisory Board on taking certain actions;
e) evaluating the operation of the financial reporting system and monitoring the processes thereof, as well as making recommendations regarding the taking of necessary measures;
f) monitoring the efficiency of the internal audit and the risk management systems of the Company; and
g) supporting the work of the Supervisory Board in order to properly audit the financial reporting system

16.3. The operation of the Audit Committee shall be regulated in detail by the rules of procedure of the Supervisory Board.

17. Continuing auditor

17.1. A continuing auditor is working for the Company. The continuing auditor shall be elected by the General Shareholders' Meeting from the register of auditors published by the Central Bank, for the maximum period of 5 years, to ensure the lawful operation of the Company and to control the management. The period of the mandate of the continuing auditor may not be shorter than the period between his or her election by the General Shareholders' Meeting and the adoption of the subsequent report by the General Shareholders' Meeting.

17.2. The continuing auditor may only be engaged if he complies with the conditions set out in Section 260 subsections (1)-(2) and (4)-(5) of the Credit Institutions Act and Section 17/K subsections (6)-(8) of the Integration Act. The Company may not commission any employee of the Supervisory Authority or their close relative as per Section 8:1 subsection (1) of the Hungarian Civil Code to become the continuing auditor.

17.3. The mandate agreement shall be concluded with the continuing auditor, with the conditions and remuneration established by the General Shareholders' Meeting, by the Board of Directors within 90 days as of the appointment or election. The mandate agreement entered into with the continuing auditor shall reflect the obligations of the continuing auditor originating from the Integration Act as well as from these Statutes. In case the agreement is not entered into within this deadline, the General Shareholders' Meeting shall elect a new continuing auditor.

17.4. A new mandate agreement can be concluded with the same auditor after lapse of four years following the termination of the mandate. The auditor (employee, executive officer, member subject to the obligation of performing work) employed by an auditing company, who has personal responsibility for the auditing work, may perform auditing tasks for the same credit institution no longer than for a period of five years, and such auditor can perform auditing tasks at the same credit institution again, only after the lapse of four years following the termination of his/her mandate.

17.5. The continuing auditor may not render services to the Company and may not establish such a cooperation with the management that jeopardizes the independent and objective provision of his auditing duties.

17.6. It is the duty of the continuing auditor to carry out the permanent audit orderly, and based on this to make a statement in an independent auditor report on whether the report of the Company drawn up in accordance with the Accounting Act complies with the relevant legislation, and presents a true and fair view of the financial and earnings position of the Company and its results of operation. Within the framework thereof, he/she shall, in particular:

a) may inspect the books of the Company, may request information from officers, members of the Supervisory Board and employees of the Company, may inspect the cash desk, as well as the portfolio of securities and goods, the contracts and bank accounts of the Company;
b) inspect the trueness and compliance with legislation of the report of the Company drawn up in accordance with the Accounting Act and submit a report thereon to the General Shareholders' Meeting;
c) shall examine all essential business reports submitted to the General Shareholders' Meeting, in particular the report drawn up in Accordance with the Accounting Act and the statement of assets from the respect whether they contain true data or are in compliance with statutory provisions;
d) may inspect the Company's files and accounting records, may request information from the executive officers as per Section 3:21 subsection (1) of the Hungarian Civil Code, the members of the Supervisory Board and the employees of the Company, and inspect the Company's payment account, petty cash and securities and goods stock and contracts;
e) may participate in the meetings of the Supervisory Board with rights of consultation, and if so requested under the notice of the Supervisory Board, he is obliged to participate in the meeting of the Supervisory Board, and may request the Supervisory Board to put on the agenda the matter recommended by him, which shall be put on the agenda by the Supervisory Board;
f) may submit reports to the Supervisory Authority in cases defined by the Credit Institutions Act, particularly in cases defined by Section 142 of the Credit Institutions Act;
g) if he detects a deterioration in the Company's assets that jeopardizes the satisfaction of the claims against the Company, or detects any circumstance that entails the responsibility of the executive officers as per Section 3:21 subsection (1) of the Hungarian Civil Code or the members of the Supervisory Board for activities carried out in their capacity as such, he shall without delay initiate at the management any measures that are required for the members to make a decision. If the initiative does not yield results, he shall notify the court of

registration carrying out judicial oversight in respect of the legal person of the discovered circumstances.

17.7. The continuing auditor shall be invited to the session of the General Shareholders' Meeting discussing the report of the Company drawn up in accordance with the Accounting Act. The continuing auditor shall participate in the session, but his absence shall not impede the holding of the session.

17.8. In case the continuing auditor discovers that the report drawn up in accordance with the Accounting Act of the Company does not comply with the laws or does not present a true and fair view of the assets, financial and earnings position of the Company and its results of operation, then he shall, further to the legal consequences laid down in other legislation, notify within 3 business days as of discovery the Audit Committee, the Supervisory Authority, the Integration Organization and the Central Bank about these findings.

17.9. The Auditor shall report to the Audit Committee any and all key issues that arise in the course of the audit, including especially any and all major shortfalls of internal control relating to the financial reporting process.

17.10. The continuing auditor shall record his findings regarding those in Section 263 subsection (1) of the Credit Institutions Act in a separate supplementary report, and shall send this report until 31 May of the year following the relevant year at the latest to the Board of Directors of the Company, the managing director, the Chairman of the Supervisory Board, the Supervisory Authority, as well as to the Central Bank and the Integration Organization.

18. Property Inspector

18.1 In the interest of providing for the lawful operation of the Company, as well as for controlling and verifying the cover records of mortgage bonds issued by the Company, on a continuous basis and within the sphere defined by law, the Board of Directors of the Company shall appoint a Property Inspector. The license of the Supervision is required for the validity of the appointment of the Property Inspector.

18.2 The Property Inspector may be appointed for a definite period of time not exceeding five years, but may be appointed again following expiry of the period of appointment. Without the license of the Supervision, the contract of agency concluded by the Company and the property inspector may not be validly terminated.

18.3 The Company may not instruct the Property Inspector within the sphere of his activities as Property Inspector.

18.4 The Property Inspector may have access to the books and other documents of the Company containing data necessary for the fulfillment of his/her duties, and may request information in connection with the fulfillment of his her duties, at any time. The Company shall provide continuous information to the Property Inspector about the principal and interest repayment of mortgage loans entered in the cover register and any changes affecting the pledged property and the additional cover even without that.

18.5 The Property Inspector shall be invited to the General Shareholders' Meeting of the Company, and he/she may participate therein with the right of consultation.

19. Chief Executive Officer

19.1 The Chief Executive Officer is the Company's employee, the senior employee, in connection with whom the employer's rights – with the exception of those falling into the exclusive competence of the General Shareholders' Meeting – are exercised by the Board of Directors.

19.2 The Chief Executive Officer qualifies as a senior executive under sub-paragraph b) of Paragraph 122 of Subsection 1 of Section 6 of the Credit Institutions Act, therefore only such persons may be elected as Chief Executive Officer in respect of whom no grounds for exclusion or conflict of interest circumstances set out in Section 137 subsections (4)-(6) of the Credit Institutions Act exist, and who comply with the conditions set out by the rules on the competence of executive officers and the verification of their competence, issued by the Integration Organization .

19.3 Rights with respect to the Chief Executive Officer's membership of the Board of Directors shall be the exclusive competence of the General Shareholders' Meeting.

19.4 The Chief Executive Officer undertakes management and control of daily operation in the context of his employment, and performs his duties as member of the Board of Directors under company law. Accordingly, his employment is governed by the Labor Code, and his election on, and membership of, the Board of Directors is governed by the provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Act on Credit Institutions) and of the Hungarian Civil Code .

19.5 The duties between the Board of Directors and the Chief Executive Officer are divided in such a way that the daily work of the Company shall be directed and controlled by the Chief Executive Officer within the framework of legal rules and the Statutes of the Company, and according to the decisions of the General Shareholders' Meeting and the Board of Directors. The decision-making on all matters which are not referred to the exclusive competence of the General Shareholders' Meeting and the Board of Directors shall fall within the competence of the Chief Executive Officer. The above division of duties shall not affect the responsibility of the Board of Directors and the members of the Board of Directors defined by legal rules.

19.6 The Chief Executive Officer shall exercise the employer's rights related to the employees of the Company in accordance with the provisions set forth in Article 14.19.5.b.

20. Authorized signature

20.1 Two persons shall jointly sign for the Company in matters assuming commitments on behalf of the Company in connection with financial service activities, including disposal over the Company's bank accounts, as follows:

- one external and one internal member of the Board of Directors jointly;
- two internal members of the Board of Directors jointly,

- two managing directors (persons satisfying the conditions set forth in Section 6 subsection (1), subparagraph 115 of the Act on Credit Institutions) jointly,
- the joint right to sign of two internal members of the Board of Directors and two managing directors may be transferred as joint right to sign in accordance with the relevant provisions of legal rules and the Rules of Procedure laid down in the Internal Rules approved by the Board of Directors of the Company..

20.2 The signature for the Company shall be effected in such a way that the persons entitled to represent the Company shall sign their names under or above the pre-typed, pre-printed or printed corporate text of the Company in accordance with their authentic specimen signature.

MISCELLANEOUS PROVISIONS

21. Withdrawal of shares from the stock exchange

The General Shareholders' Meeting may only make a decision resulting in the withdrawal of the shares of the Company from the stock exchange, including the decision leading to the cancellation of the securities series as a sanction, in the events specified under the currently effective capital markets and stock exchange rules.

22. Legal disputes

22.1. The Arbitration Court attached to the Hungarian Chamber of Commerce and Industry shall decide any legal dispute arising from the present Statutes among shareholders.

22.2 The Company shall be entitled to apply to the courts against the decisions or instructions of the Board of Directors of the Central Bank as per the Integration Act, also under the rules of judicial review of corporate resolutions. Applying to the court shall have no suspensive effect, and the decision or instruction shall be implemented within the deadline designated therein, regardless of the procedure.

22.3 The Company shall be entitled to apply to the courts against the instruction or decision of the Integration Organization addressed to it, to establish whether the instruction or the decision is in line with the law, other legislation, and the regulations and determined directives issued by the Integration Organization and the other regulations of the integration. Applying to the court shall have no suspensive effect, and the instruction or decision shall be implemented within the deadline designated therein, regardless of the procedure.

23. Announcement

The Company shall publish its announcements on its own website (www.takarek.hu), on the website operated by the Central Bank of Hungary (www.kozzetetelek.hu), and the website of the Budapest Stock Exchange. An announcement shall also be published in the Companies Gazette if required by law or these Statutes. Publication of an announcement on the website of the Company shall replace any and all other publication related obligations where such replacement is allowed by law and other applicable regulations.

24. Closing provisions

By virtue of Resolution No. […] of the General Shareholders' Meeting of Takarék Mortgage Bank Co. Plc. approved the above amendments to the Statutes of the Company.

* * *

The present Statutes shall enter into force on the 25th of April 2019.

***

The Statutes entered into force on 25th of April 2019.

ANNEX NO. 1.

AUTHORIZATION OF NOMINEE

The undersigned ____, duly authorized representative(s) of

____

(Name/Corporate name of shareholder)

(registered seat: _________________________; registration number: _________________; hereinafter: the „**Shareholder**") entered in the Register of shareholders of Takarék Mortgage Bank Public Limited Company (1082 Budapest, Üllői út 48., Register of Companies number: 01-10-043638) (hereinafter: the "**Company**") hereby appoint and authorize

____

(Name of nominee)

(mother's name: _________________; address: _________________; ID card number: _________________), to act on my behalf and represent me as my nominee and exercise my rights as a shareholder with full power of attorney at the annual regular/extraordinary General Shareholders' Meeting of Takarék Mortgage Bank to be held on __ ____________ 201... or, in the event of an absence of a quorum, at the repeated General Shareholders' Meeting reconvened at the date and venue stipulated in the announcement.

_________________, __ ______________ 20....

______________	______________
on behalf of the Shareholder	on behalf of the Shareholder

In witness thereof:

Name:	Name:
Address:	Address:
Signature:	Signature:

ANNEX NO. 2.

AUTHORIZATION OF NOMINEE

The undersigned ____________________, a shareholder (hereinafter: the "**Shareholder**") duly entered in the Register of shareholders of Takarék Mortgage Bank Public Limited Company (1082 Budapest, Üllői út 48., Register of Companies number: 01-10-043638) (hereinafter: the "**Company**") by virtue of this Deed of Authorization of Nominee hereby appoint and authorize

____
(Name of nominee)

(mother's name: _________________; address: _________________; ID card number: _________________), to act on my behalf and represent me as my nominee and exercise my rights as a shareholder with full power of attorney at the annual regular/extraordinary General Shareholders' Meeting of Takarék Mortgage Bank to be held on __ ___________ 201... or, in the event of an absence of a quorum, at the repeated General Shareholders' Meeting reconvened at the date and venue stipulated in the announcement.

_________________, __ _____________ 20....

_____________ on behalf of the Shareholder	_____________ on behalf of the Shareholder

In witness thereof:

Name:	Name:
Address:	Address:
Signature:	Signature:

PROPOSAL

TO THE ITEM NO. 9 OF THE AGENDA

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE OWN SHARES (IN HUNGARIAN: „SAJÁT RÉSZVÉNY")

PROPOSAL
Authorization of the Board of Directors to acquire own shares

By virtue of Resolution No. 14/2018. (04.27.) passed by the Annual General Meeting of Takarék Mortgage Bank Plc („Company”) on 27 April 2018, the General Meeting authorized the Board of Directors to acquire the Company’s own shares (treasury shares, “*saját részvény*” in Hungarian), pursuant to Section 3:223 Subsection 1 of the Act V of 2013 on Civil Code. The authorization given to the Board of Directors is valid for 18 months.

Acquiring own shares is preferable in the forthcoming period in the interest of preserving the stability of the share exchange rate and executing the business strategy of the Company.

Based upon the above, the Board of Directors of the Company proposes that the General Meeting resolve to reissue the authorization for the Board of Directors, valid for 18 months, including specification of the type, class, number, par value, lowest and highest consideration to be paid for the shares, pursuant to Section 3:223 Subsection 1 of Act V of 2013 on Civil Code.

The Supervisory Board of Takarék Mortgage Bank Co. Plc. agrees with the proposal of the Board of Directors.

PROPOSED RESOLUTION:

The General Meeting of Takarék *Mortgage Bank Co. Plc. authorizes the Board of Directors that pursuant to the provisions of Section 3:223 Subsection 1 of Act V of 2013 on Civil Code ("Civil Code to acquire the Company's own shares (treasury shares, "saját részvény" in Hungarian), subject to the following conditions:*

1. *Type, par value and amount of treasury shares that can be acquired:*
    - *Series 'A' ordinary shares with a par value of HUF 100;*
    - *Series 'B' preferential shares with a par value of HUF 1,000;*
    - *Series 'C' ordinary shares with a par value of HUF 100;*

    the maximum amount of which in total with regard to the same date shall not exceed 25 per cent of the total nominal value of the share capital.

2. *Purpose of acquisition of treasury shares:*
    - *preserving the stability of the share exchange rate and executing the business strategy of the Company.*

3. *Method of acquisition of own shares:*
    - *On the Budapest Stock Exchange or on the OTC market, for consideration.*

4. *The minimum and maximum amount of consideration payable for one own share:*
    - *the minimum purchase price of "A" and "B" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 125% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction;*
    - *the minimum purchase price of "C" series shares shall be HUF 1,- that is One Hungarian forint, while the maximum purchase price shall be 125% of the average price of the "A" series shares weighted by volume of trading on the Budapest Stock Exchange over the one month preceding the transaction.*

5. *This authorization shall be valid for 18 months from the date of this resolution.*

6. *Other conditions of acquisition of own shares shall be governed by the relevant provisions of the Civil Code.*