Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

31 December 2019

Ernst & Young Kft.
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Independent Auditors' Report

To the Shareholders of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Report on the audit of the annual financial statements

Opinion

We have audited the accompanying 2019 annual financial statements of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the statement of financial position as at 31 December 2019 - showing a balance sheet total of HUF 638,773 million and a total comprehensive income for the year of HUF 7,004 million -, the related statement of total comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report.

We are independent of the Company in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these 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 annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the annual financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual financial statements.

Credit Impairment

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining expected credit losses ("ECL"). The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected debt services cash flows, and expected net selling prices of real-estate collaterals. The portfolios which give rise to the greatest uncertainty are typically those where impairments are calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. These models require the significant judgment of management regarding correct segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities. The use of different modelling techniques and assumptions could produce

We involved valuation specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures.

We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans and receivables to customers and controls over ECL calculations including the quality of underlying data and systems.

We evaluated the model governance, methodologies, inputs and assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements) including model validations and backtesting.

We assessed the result of loan disposals during the year and how its results were incorporated into the loss given default ("LGD") calculation.

We also assessed whether the disclosures in the annual financial statements appropriately reflect the Company's exposure to credit risk and are compliant with the EU IFRSs.

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significantly different estimates of loan loss provisions.

Due to the significance of loans and receivables to customers (representing 71% of Total Assets as at 31 December 2019) and the related estimation uncertainty, this is considered a key audit matter.

The Company's disclosures about its risk management policies are included in Note 34.1. Credit risk which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 7.3. Impairment of financial assets, write-offs.

Information Technology (IT) systems

A significant part of the Company's financial reporting process and interest and fee revenue recognition is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area. Furthermore, the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this as a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Company's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

The Company's disclosures about its IT Systems are included in Note 32.5. IT systems.

Other information

Other information consists of the 2019 business report of the Company. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

We are required to confirm also whether the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

In our opinion, the business report of the Company for 2019 is consistent, in all material respects, with the 2019 annual financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, we do not express opinion in this regard.

We also confirm that the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Company and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with the EU IFRSs and for the preparation in accordance with the supplementary requirements of the Hungarian Accounting Law relevant for annual financial statements prepared in accordance with EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual 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 internal control that we identify during our 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 annual financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as statutory auditor by the General Assembly of Shareholders of the Company on 2 May 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for three years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the business report and in the annual financial statements, no other services were provided by us to the Company and its controlled undertakings.

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

Budapest, 11 February 2020

(The original Hungarian version has been signed.)

Szabó Gergely
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165

Szabó Gergely
Registered auditor
Chamber membership No.: 005676

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SEPARATE STATEMENT OF FINANCIAL POSITION

(HUF million)	Note	31.12.2019	31.12.2018
ASSETS			
Cash and cash equivalents	9.	56,353	11,419
Securities	10.	109,412	121,279
Receivables from customers	11.	453,176	409,089
Other financial receivables	12.	533	267
Investments in subsidiaries	13.	1,359	459
Property, plant and equipment	14.	9,130	1,517
Intangible assets	15.	7,111	7,088
Current tax assets	31.	369	550
Deferred tax assets	31.	566	377
Other assets	16.	764	1,139
TOTAL ASSETS		**638,773**	**553,184**

EQUITY AND LIABILITIES			
Liabilities to customers	17.	562,415	487,128
Other financial liabilities	18.	7,692	1,193
Provisions	19.	1,541	2,223
Current tax liabilities	31.	0	0
Deferred tax liabilities	31.	901	1,236
Other liabilities	20.	2,624	2,308
TOTAL LIABILITIES		**575,173**	**494,088**
Share capital	21.	2,001	2,001
Capital reserve	21.	2,100	2,100
Retained earnings	21.	39,570	35,854
Statutory reserves	21.	12,925	12,225
Settlement reserve	21.	6,959	6,959
General reserve	21.	5,966	5,266
Revaluation reserve	21.	0	0
Profit for the year	21.	7,004	6,916
TOTAL SHAREHOLDERS' EQUITY		**63,600**	**59,096**
TOTAL EQUITY AND LIABILITIES		**638,773**	**553,184**

Budapest, 11 February 2020

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel

Member of the Board

SEPARATE STATEMENT OF TOTAL COMPREHENSIVE INCOME

(HUF million)	Note	2019	2018
Interest income	22.	29,250	27,247
Interest expense	22.	-8,582	-8,070
NET INTEREST INCOME	**22.**	**20,668**	**19,177**
Fee and commission income	23.	1,807	2,148
Fee and commission expense	23.	-951	-2,521
NET FEE AND COMMISSION INCOME/EXPENSE	**23.**	**856**	**-373**
Dividend income	24.	0	0
Net trading income/expense	25.	-187	13
Net profit arising from derecognition of financial assets and liabilities measured at amortised cost	26.	171	2,644
Change in impairment of financial assets and changes in credit provisions	27.	-563	-601
Other operating income	28.	558	379
Other operating expenses	29.	-1,622	-1,953
Operating costs	30.	-11,492	-10,874
PROFIT BEFORE TAX		**8,389**	**8,412**
Income taxes	31.	-1,385	-1,496
PROFIT AFTER TAX		**7,004**	**6,916**
OTHER COMPREHENSIVE INCOME		**0**	**0**
TOTAL COMPREHENSIVE INCOME		**7,004**	**6,916**

Budapest, 11 February 2020

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel

Member of the Board

SEPARATE STATEMENT OF CASH FLOWS

(HUF million)	Note	2019	2018
NET PROFIT		**7,004**	**6,916**
Cash flows from operating activities			
Depreciation and amortisation	30.	2,289	1,362
Impairment of securities and reversal thereof, net	27.	88	134
Impairment of receivables from customers and reversal thereof, net	27.	-613	466
Impairment of other financial receivables and reversal thereof, net	27.	-11	1
Impairment of property, plant, equipment and intangible assets and reversal thereof, net		0	18
Net gain/loss on sale of financial assets (securities)	25.	131	-2,550
Provisions	19.	-683	-271
Income tax expense	31.	1,385	1,496
Total adjustments:		**2,586**	**656**
Securities		2,427	-538
Receivables from customers		-43,474	-65,099
Other financial receivables		-255	-10
Other assets		-963	-733
Liabilities to customers		75,287	63,253
Other financial liabilities except for leases		-44	156
Other liabilities		-20	-413
Total changes:		**32,958**	**-3,384**
Income taxes paid		-1,204	-1,905
Net cash from/used in operating activities		**41,344**	**2,283**

Investment cash flow	Note	2019	2018
Acquisition of securities		-48,298	-67,545
Proceeds from sale and maturity of securities		57,518	64,487
Acquisition of property, plant and equipment	25.	-1,768	-411
Proceeds from sale of property, plant and equipment		25	10
Acquisition of intangible assets		-1,196	-1,322
Proceeds from sale of assets held for sale		249	0
Net cash from/used in investing activities		**6,530**	**-4,781**

Financing cash flow	Note	2019	2018
Payment of lease liabilities	32.1.	-440	0
Dividends paid	21.	-2,500	-2,500
Net cash from/used in financing activities		**-2,940**	**-2,500**
Net increase/decrease in cash and cash equivalents		**44,934**	**-4,998**
Balance at 31 December of the previous year	39.	11,419	16,421
Impact of adopting IFRS 9 at 1 January 2018		0	-4
Restated balance at 1 January 2018		0	16,417
Cash and cash equivalents at 31 December	**9.**	**56,353**	**11,419**

The Company reports cash flows from operating activities using the indirect method.

In the reporting period the Company paid HUF 6,390 million interest (2018: HUF 5,875 million). Interest received totalled HUF 32,946 million (2018: HUF 29,620 million), while no dividends were paid by the subsidiaries.

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SEPARATE STATEMENT OF CHANGES IN EQUITY (NOTE 21)

(HUF million)	Share capital	Capital reserve	Retained earnings	Statutory reserves		Revaluation reserve	Profit/Loss for the year	Total
				Settlement reserve	General reserve			
Balance at 31 December 2017	**2,001**	**2,100**	**31,729**	**6,959**	**4,574**	**15,058**	**8,461**	**70,882**
Impact of adopting IFRS 9 at 1 January 2018	0	0	-1,144	0	0	-15,058	0	**-16,202**
Restated balance at 1 January 2018	**2,001**	**2,100**	**30,585**	**6,959**	**4,574**	**0**	**8,461**	**54,680**
Net profit	***0***	***0***	***0***	***0***	***0***	***0***	***6,916***	***6,916***
Total other comprehensive income	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Total comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**6,916**	**6,916**
Dividends for the previous year	0	0	-2,500	0	0	0	0	-2,500
Transfer of previous year's profit to retained earnings	0	0	8,461	0	0	0	-8,461	0
Total contributions and distributions	**0**	**0**	**5,961**	**0**	**0**	**0**	**-8,461**	**-2,500**
General reserve	0	0	-692	0	692	0	0	0
Total other changes in equity	**0**	**0**	**-692**	**0**	**692**	**0**	**0**	**0**
Balance at 31 December 2018	**2,001**	**2,100**	**35,854**	**6,959**	**5,266**	**0**	**6,916**	**59,096**
Impact of adopting IFRS 16 at 1 January 2019	0	0	0	0	0	0	0	**0**
Restated balance at 1 January 2019	**2,001**	**2,100**	**35,854**	**6,959**	**5,266**	**0**	**6,916**	**59,096**
Net profit	**0**	**0**	**0**	**0**	**0**	**0**	**7,004**	**7,004**
Total other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	***0***	***0***
Total comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**7,004**	**7,004**
Dividends for the previous year	0	0	-2,500	0	0	0	0	-2,500
Transfer of previous year's profit to retained earnings	0	0	6,916	0	0	0	-6,916	0
Total contributions and distributions	**0**	**0**	**4,416**	**0**	**0**	**0**	**-6,916**	**-2,500**
General reserve	0	0	-700	0	700	0	0	0
Total other changes in equity	**0**	**0**	**-700**	**0**	**700**	**0**	**0**	**0**
Balance at 31 December 2019	**2,001**	**2,100**	**39,570**	**6,959**	**5,966**	**0**	**7,004**	**63,600**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Fundamenta-Lakáskassza Zrt. – up to 30 June 2003 Fundamenta Magyar-Német Lakás-takarékpénztár Rt. – (hereinafter referred to as the "Company") was established by deed of foundation dated 5 December 1996.

The Company is consolidated as a subsidiary by the following entities:

- in the largest unit: DZ BANK AG (DE-60265 Frankfurt am Main, Platz der Republik; https://www.dzbank.com/)
- in the smallest unit: Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52; https://www.schwaebisch-hall.de/).

Ownership structure as at 31 December 2019:

Shareholders	Registered ordinary share			Ownership share (%)
	Nominal value (HUF)	Quantity (no)	Value (THUF)	
Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52)	10,000	102,551	1,025,510	51.25
Bausparkasse Wüstenrot AG (BWAG) (A-5020 Salzburg, Alpenstraße 70)	10,000	27,278	272,780	13.63
Wüstenrot & Württembergische AG (DE-70176 Stuttgart, Gutenbergstraße 30)	10,000	22,942	229,420	11.47
Generali Biztosító Zrt. (HU-1066 Budapest, Teréz krt. 42-44.)	10,000	29,770	297,700	14.88
UniCredit Bank Hungary Zrt. (HU-1054 Budapest, Szabadság tér 5-6.)	10,000	14,777	147,770	7.38
Sberbank Magyarország Zrt. (HU-1088 Budapest, Rákóczi út 1-3.)	10,000	2,782	27,820	1.39
TOTAL	**-**	**200,100**	**2,001,000**	**100.00**

In accordance with Act CXIII of 1996 on Home Savings and Loan Associations the Company's core activity is home savings and loans, including the collection of deposits under contracts, the granting of loans under contracts, and the granting of bridging loans related to such contracts.

The National Money and Capital Market Supervisory Authority (the legal predecessor to the Hungarian Financial Supervisory Authority) authorised its establishment in resolution no. 80/1997 dated 20 March 1997, and the start of its operations in resolution 255/1997 dated 15 May 1997.

The Company was registered in the company register by the Metropolitan Court as the Court of Registration on 24 April 1997, as a company limited by shares, under no. Cg. 01-10-043304.

Fundamenta-Lakáskassza Zrt.:

Tax number:	12217595-4-44
CSO statistical code:	12217595-6419-114-01

Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have conducted their activity since 1 January 2011 as a VAT group, which was authorised by the National Tax and Financial Control Office (currently known as the National Tax and Customs Administration) in a resolution dated 14 December 2010.

At this time, the ninth digit of the tax number of the two group members changed from 2 to 4.

Group ID number: 17781121-5-44

Group EU VAT number: HU17781121.

The Group is represented by Fundamenta-Lakáskassza Zrt.

Internal Board members are authorised to sign the financial statements.

Members of the Board of Directors in the financial year:

Bernadett Tátrai

Chairwoman of the Board, Chairwoman-CEO

1223 Budapest, Őszibarack utca 10.

László Morafcsik

Deputy CEO, Member of the Board

2112 Veresegyház, Kilátó utca 9.

Rainer Kaschel

Member of the Board

1065 Budapest, Lázár utca 8. 5.em 1.

Attila Soós

Member of the Board

2030 Érd, Iparos utca 136.

2. Compliance with IFRSs

The separate financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as: IFRSs) as adopted by the European Union (EU).

The Company meets its annual reporting obligation under Act C of 2000 on Accounting ("Act on Accounting") with these separate financial statements, in accordance with Section 9/A of the Act on Accounting.

The Company prepared separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union (EU) for the first time as of 31 December 2018. The Company has kept its accounting records and satisfied its reporting obligation under the Act on Accounting in accordance with IFRSs since 1 January 2018.

These financial statements were approved for issue by the Board of Directors on 11 February 2020.

3. Functional and presentation currency

These financial statements were prepared in Hungarian forints as the presentation currency, which is the Company's functional currency.

Unless otherwise indicated, financial data presented in Hungarian forints in the financial statements is rounded to HUF million, while figures in other currencies are rounded to one unit of the foreign currency.

4. Judgements and estimates used in the financial statements

In preparing the financial statements in conformity with the accounting policies, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Future changes in the economic environment, financial strategy, regulatory environment, accounting regulations and other areas may result in changes in estimates, which may have a significant effect on future financial statements.

When preparing the financial statements, the management made an assessment of the entity's ability to continue as a going concern and established that it has the necessary resources to continue as a going concern in the foreseeable future.

The management is not aware of any material uncertainty that would cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the financial statements are prepared on a going concern basis.

4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the financial statements is as follows:

a) Classification of leases under IFRS 16

In accordance with IFRS 16, the Company assesses all contracts where it acts as a lessor and determines whether the lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset (in the case of sub-leases the right-of-use asset).

If all material risks and rewards incidental to ownership of the asset is transferred to the lessee, a lease is considered a financial lease.

All lease transactions not classified as finance lease are operating leases.

If a head lease is a short-term lease to which the Company applies the recognition exemption described in Note 7.12, then it classifies the sub-lease as an operating lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

As a lessor, the Company has finance and operating leases.

The accounting policy on leases is presented in Note 7.12, while the quantified disclosures on leases are presented in Note 32.1.

b) IFRS 9 business model and SPPI considerations

Upon the first adoption of IFRS 9, and thereafter upon the recognition of financial assets, the Company assesses whether based on the facts and circumstances that exist at that date it holds the given financial asset in a business model whose objective is to hold assets to collect contractual cash flows, or both to collect contractual cash flows and to sell financial assets.

If the Company determines that the objective of the business model for the given financial asset is to collect contractual cash flows, at the time of initial recognition the Company examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification of financial assets under IFRS 9, and the accounting policies for the business model as well as for SPPI, are laid out in more detail in Note 7.2 b).

c) Treatment of bridging loans, immediate bridging loans and housing loans

For its customers with home savings contracts in the saving phase, the Company may grant a bridging or immediate bridging loan on one occasion during the savings period if the terms set forth in the loan agreement are met (both bridging and immediate bridging loans hereinafter referred to as: "bridging loans"); following the disbursement date the Company may grant a housing loan based on the loan agreement.

When the contractual amount in the home savings contract is disbursed, the bridging loan is paid off from the amounts deposited by the customer and from the housing loan amount granted.

The Company treats the two contracts, the bridging loan and the subsequent housing loan, as two different financial instruments. The bridging loan ends and is derecognised upon the disbursement of the contractual amount, while the granted housing loan is entered into the books as a new loan.

The transaction costs related to the granting of the bridging loan are amortised until the payment of the contractual amount, not until the end of the housing loan phase. During the housing loan phase, the transaction cost associated with the bridging loan phase is not amortised.

The bridging loans bear different interest to the housing loans. The Company applies two different effective interest rates for the bridging loan and for the housing loan created as of the disbursement date, in light of the different interest conditions for the loans and the practice regarding the amortisation of the transaction cost detailed above.

In the case of the housing loan, the commissions payable on the housing loan are accounted for as transaction cost using the effective interest method.

4.2. Assumptions and estimation uncertainties

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the reporting year, is as follows:

Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for financial instruments. In measuring the fair value of an asset or liability the Company uses observable market data where possible; if such is not available they use directly or indirectly observable input parameters to estimate fair values. The details on measuring fair value are presented in Note 7.2 e).

Deferred tax

Recovery of deferred tax assets is dependent on future taxable profits. The availability of future taxable profits is supported by a business plan that is prepared for a period in relation to which the Company is able to prepare a reliable plan. Further details on deferred tax can be found in Notes 7.26 and 31.

Provisions

The recognition and measurement of provisions and contingent liabilities also imply a high degree of estimation uncertainty, particularly with regard to the most important assumptions on the magnitude and probability of an outflow of resources. For more details please refer to Note 19.

Impairment of financial instruments under IFRS 9

When determining the impairment of financial assets under IFRS 9 the management uses estimates to assess whether or not the credit risk of the financial asset has risen significantly following the initial recognition, and also makes estimates when using forward-looking information for measuring expected credit loss. For more details please refer to Note 7.3 a).

Impairment of non-financial instruments under IAS 36

The Company monitors indications that the carrying amount of a non-financial asset within the scope of IAS 36 Impairment of assets exceeds its recoverable amount. If any such indication exists, then the asset's recoverable amount is estimated. For more details see Note 7.11.

Determination of the effective interest rate (customer bonus)

From time to time the Company advertises customer campaigns, and for certain groups of customers it gives permanent customer bonuses. The common feature in the customer campaigns is that customers receive the bonus upon disbursement (after 4-10 years of saving). Customers do not receive the customer bonus automatically, it is subject to the terms advertised in the promotion campaign.

The Company prepares an analysis on the probability of a customer becoming entitled to the bonus by reaching the end of the savings period (the terms of the campaign are fulfilled and the contract is not cancelled). The Company takes the amount of the customer bonus into account with the probability determined in this way when recording the initial cash flow of the deposit, and reviews the probability estimate every year. If the backtested probability differs from the probability in the system by more than 5 percentage points, this is treated as an estimate change. The loss of entitlement to the bonus is also treated as an estimate change by the Company.

Accounting for initial fair value difference

The fair value of a financial instrument at initial recognition is normally the transaction price. However, if the Company originates a financial instrument whose fair value differs from the transaction price (it originates a loan with an interest rate different from the market rate, or purchases securities whereby the purchase price differs from the fair value) the Company recognises the instrument at fair value. The Company defers the difference between the fair value and the transaction price as other asset/liability and accounts for it in profit or loss over the term of the instrument on a straight-line basis.

5. Measurement principles

When preparing the financial statements the assets and liabilities were measured at their historical cost.

6. Changes in accounting policies

Except for the changes below, the Company consistently applied the accounting policies set forth in Note 7 to all periods presented in the financial statements.

IFRS 16 Leases

IFRS 16 replaced previous leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. Moreover, IFRS 16 includes more extensive disclosure requirements than IAS 17.

The Company applies IFRS 16 for the first time as of 1 January 2019 and chose the modified retrospective approach to transition, meaning that the cumulative effect of the initial application of the standard is recognised as an adjustment to the opening balance of retained earnings at the date of first adoption.

Definition of a lease

Previously, the Company determined whether an arrangement was or contained a lease under IFRIC 4. The Company applied IFRS 16 only to contracts that were previously identified as leases. The Company assesses whether a contract contains a lease based on the definition described in detail in Note 7.12.

The Company acting as a lessee

As a lessee, the Company has property lease transactions. Previously, under IAS 17 the Company classified the leases as operating leases based on whether the lease transferred significantly all of the risks and rewards incidental to ownership of the asset to the lessee.

Under IFRS 16, the Company recognises the right-of-use asset as at the commencement date and a lease liability is recognised in the statement of financial position.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The non-lease components of the contracts are not separated. As a practical expedient, the Company has elected not to separate non-lease components from lease components, and instead account for them as a single lease component. The Company assesses each contract whether it contains a lease component.

On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the interest rate implicit in the lease as at 1 January 2019.

The Company acting as a lessor

The Company sub-leases leased offices to subsidiaries. These lease transactions were accounted for under IAS 17 as operating leases. In addition, since the reporting year it has been leasing out a rented office space to a third party external partner. This transaction is accounted for as a finance lease.

On transition to IFRS 16 the Company reassessed the classification of sub-lease transactions where it is acting as a lessor. As a lessor, the Company did not have to recognise any differences resulting from the transition.

Judgements on transition

The Company applied the following judgements relating to transition:

- At the date of initial application the Company reassessed whether the contract was a lease or contained a lease under IFRS 16.

- For leases previously classed as operating leases under IAS 17, the right-of-use asset recognised as of the date of initial application was 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.

- The Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

- As an alternative to impairment review, directly before the date of initial application the Company assessed whether the leases were onerous in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. It did not identify any onerous contracts in this regard, and so the right-of-use assets do not have to be adjusted at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

- The Company applies the expedients permitted by the standard for short-term leases. On transition to IFRS 16 the remaining term for all asset groups is less than 1 year.

- The Company excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Impact of transition on financial statements

As a result of transition to IFRS 16, on transition the Company recognised a right-of-use asset and additional lease liabilities, recognising the difference as an adjustment to the opening balance of retained earnings. The impact of first application is presented in the table below:

Table 6.1 - Effect of transition

(HUF million)	**01.01.2019**
Operating lease commitments at 31 December 2018 as disclosed in the separate financial statements issued by the Company	***7,806***
Commitments as at 31 December 2018 related to contracts already concluded but not yet capitalised as at 1 January 2019	-7,591
Commitments at 31 December 2018 related to operating fees, which increase lease liabilities.	47
Total commitments under operating leases at 31 December 2018	***262***
Recognition exemptions at 1 January 2019 for:	-214
– short-term leases	-203
Discounting effect	-11
Lease liabilities at 1 January 2019	**48**

7. Significant accounting policies

7.1. Transactions in foreign currency

Transactions in foreign currency are translated into the Company's functional currency using the official exchange rate of the MNB as of the transaction dates.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated using the official MNB exchange rate at the end of the period.

Non-monetary items measured at cost are translated into the functional currency using the exchange rate valid on the date of the transaction.

7.2. General rules on the recognition, classification and measurement of financial instruments

a) Recognition and measurement

The Company recognises financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company applies settlement date accounting for regular-way purchases or sales of financial assets.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If the Company determines that the fair value at initial recognition differs from the transaction price, it accounts for that instrument at that date as follows:

- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. In this case the Company recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.

- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

b) Classification

On initial recognition the Company classifies the financial assets as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

Financial assets that are debt instruments are measured by the Company at amortised cost, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (hereinafter referred to as: SPPI).

Financial assets that are debt instruments are measured by the Company at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model applied to manage financial assets

On the date of the first adoption of IFRS 9, the Company assessed based on the facts and circumstances that existed at that date whether it holds the given financial asset in a business model whose objective is to hold assets to collect contractual cash flows, or both to collect contractual cash flows and to sell financial assets.

In the case of its financial assets the Company determined the business model at portfolio level, during which it identified the following portfolios:

- Current accounts and bank deposits
- Securities
- Receivables from customers
- Other receivables from customers: deposit-related fee receivables (e.g. account-opening fees) and other receivables from customers
- Other financial receivables

When assessing the business model applied to manage financial assets the Company takes all relevant evidence into account, including the following:

- how the performance of the business model and the financial assets held within the business model is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks;

- the way managers are compensated (for example, whether the compensation depends on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, value and timing of sales from the given portfolio in previous periods (including the reasons for the sales and the conditions valid at the time of sale), the reason for the sales and expectations regarding future sales activity.

When determining the business model the Company does not take into account scenarios that cannot be reasonably expected, so-called “worst-case” or “stress” scenarios. The Company takes into consideration all the relevant information available at the time the business model is assessed, along with the method previously used to realise cash flows.

For the given portfolio the Company defined three business models,

- Business model whose objective is to hold financial assets to collect contractual cash flows;
- Business model whose objective is to hold financial assets to collect contractual cash flows and sell financial assets;
- Other business model.

For all sub-portfolios the objective of the Company’s business model is to hold to maturity and collect the contractual cash flows.

Assessment of contractual cash flows

On initial recognition the Company examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed) or not (SPPI test not passed).

When assessing whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding, principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example liquidity risk and administrative costs), as well as profit margin.

The Company analyses the contractual terms of the financial asset to determine whether they give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the terms of a basic loan agreement. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows, and whether the contractual cash flows that can be collected based on this contractual condition during the life of the financial asset are solely payments of principal and interest on the principal amount outstanding. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage;
- prepayment and extension terms;
- terms that restrict the Company’s claim to specified assets of the debtor or to cash flows from specified assets (e.g. non-recourse financial assets); and
- terms that modify the component related to the time value of money – for example, periodical reset of the interest rate of the financial asset.

In order to assess the fulfilment of the SPPI criterion, the Company classifies its debt instruments (cash and cash equivalents, securities, receivables from credit institutions, receivables from customers, other financial receivables) into sub-portfolios based on their characteristics.

Reclassifications

The Company reclassifies its affected financial assets when, and only when, it changes its business model for managing financial assets.

If the Company reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

Classification of financial liabilities

The Company measured all of its financial liabilities at amortised cost.

c) Derecognition

Derecognition of financial assets

The Company derecognises financial assets when its rights to the contractual cash flows cease or expire, or if the contractual rights related to the asset (significant risks and rewards of ownership) are transferred.

When derecognising debt instruments measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income must be reclassified as a reclassification adjustment from equity to profit or loss.

In the case of financial assets measured at amortised cost, the gain or loss on the derecognition is the difference between the carrying amount and the consideration received, and it is recognised in profit or loss.

Derecognition of financial liabilities

The Company derecognises financial liabilities when the contractual obligations are discharged, cancelled or expire. The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to a third party and the consideration paid (including non-cash assets and assumed liabilities transferred) must be recognised net in profit or loss.

d) Revision of expected cash flows and modifications of financial assets and liabilities

Change in cash flows

In the case of a change in the estimated cash flows of the transaction, the Company changes the carrying amount of the financial asset or liability by re-calculating the net present value of the “new” debt instrument based on the new cash flows and the original effective interest rate. The difference between the net present value determined as described above and the carrying amount before the change in cash flows is recognised in profit or loss as interest income/expense.

Modifications resulting in derecognition

The Company accounts for exchanges between an existing borrower and lender of debt instruments with substantially different terms as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for by the Company as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability.

In this respect, the terms are substantially different if, based on the new terms, the present value of the cash flows – including paid fees and excluding received fees – discounted using the original effective interest rate differs by at least 10 percent from the discounted present value of the remaining cash flows of the original financial asset or liability.

If the exchange of debt instruments or the modification of terms is accounted for as an extinguishment, the gain or loss on derecognition is recognised as interest income/interest expense. Direct costs and fees connected to the new financial asset or liability are accounted for over the remaining term of the new debt instrument using the effective interest method, as interest income/ interest expense.

Modifications not resulting in derecognition

If the exchange or modification is not accounted for as an extinguishment, the arising costs or fees modify the carrying amount of the liability, and such are amortised over the remaining period of the modified loan.

If the financial asset or liability is not derecognised, the Company has to change the carrying amount of the financial asset or liability by re-calculating the net present value of the "new" financial asset or liability based on the new contractual terms (cash flows) and the original effective interest rate. In this case, the difference between the present value of the "new" financial asset or liability and the carrying amount of the financial asset or liability before the modification of terms shall be recognised in profit or loss as Interest income / Interest expense.

e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its default risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When determining the fair value of financial instruments, the Company applies market prices in the case of transactions with an active market. For the majority, however, there is no reliable public market information available, so the Company applies different valuation techniques to measure the fair value of financial instruments.

The fair value hierarchy of financial instruments was determined as follows:

- Level 1: based on quoted prices (unadjusted) for identical assets and liabilities on an active market.
- Level 2: based on input information other than those included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) in connection with the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs for assets and liabilities which are not based on observable market data (unobservable inputs).

The Company recognises transfers between the levels in the fair value hierarchy at the end of the reporting period in which the change took place.

As at the end of the reporting period, the Company does not have any financial assets and liabilities measured at fair value in the statement of financial position. The fair value of instruments not measured at fair value is presented in Note 36.3.

7.3. Impairment of financial assets, write-offs

General rules on impairment of financial assets

The Company recognises loss allowances for expected credit loss in the case of financial assets measured at amortised cost or for loan commitments to which the impairment requirements of IFRS 9 apply.

At the end of each month the Company assesses whether the credit risk on the financial asset has risen significantly since the initial recognition. During the assessment the Company examines the change in the default risk over the expected life of the financial asset.

To carry out this assessment the Company compares the default risk of the financial asset at the end of the month with the default risk at initial recognition, taking into account any reasonable and supportable information, available without undue cost or effort, which points towards significant growth in the credit risk since initial recognition. The Company may assume that the credit risk of a financial asset has not risen significantly since initial recognition if it is found that the credit risk of the financial asset is low as of the reporting date.

If forward-looking, reasonable and supportable information is available without undue cost or effort, the Company may not rely solely on default information when determining whether the credit risk has risen significantly since initial recognition, but it also considers other indications of credit deterioration of the customer.

If the credit risk of a financial asset has not risen significantly from the initial recognition until the reporting date, the Company measures the loss allowance for the given financial asset at an amount equal to 12-month expected credit loss (*Stage 1*).

On each reporting date the Company measures the loss allowance for the financial asset at an amount equal to lifetime expected credit loss, if the credit risk of the financial asset – assessed either individually or collectively – has risen significantly since initial recognition, taking all reasonable and supportable information into account, including forward-looking information (*Stage 2 or Stage 3*).

The definition of default is included in Note 34.1. If a financial asset is considered to be in default, the Company classifies it into Stage 3. In subsequent periods, if – for a period of 3 months – there is no default in relation to the financial asset that exceeds 90 days, the financial asset is reclassified to Stage 1 or Stage 2 based on the criteria defined in the Default policy.

For financial assets measured at amortised cost, the Company recognises – as an impairment gain or loss in the profit or loss – the amount of expected credit losses (or reversal thereof) which is used to adjust the loss allowance to the amount determined as of the reporting date.

The Company applies the general principles presented above to determine the expected credit loss for the following financial assets:

- Cash and cash equivalents
- Securities
- Receivables from customers (bridging loans; housing loans granted after bridging loans; housing loans granted without preceding bridging loans; bridging loans granted based on preferential list of fees).

Despite the above, the Company always measures the loss allowance for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 which do not contain a significant financing component in line with IFRS 15 at an amount equal to lifetime expected credit loss (or if the Company applies the practical expedient for contracts that are one year or less). Such include during the Company's operation deposit-related fee receivables as well as other financial receivables, for which the Company adopts a simplified approach.

i. Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). The estimated expected credit loss always has to reflect the possibility of the credit loss occurring and not occurring, even if the most likely outcome is that there will be no credit loss. The expected credit loss estimate has to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

The credit loss of financial assets is the present value of the difference between the contractual cash flows due to the Company under contract and the cash flows that the Company expects to receive.

The Company measures the expected credit losses of the given financial asset in a way that reflects the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, as well as the time value of money, and reasonable and supportable information available without undue cost or effort on the reporting date regarding past events, current conditions and forecasts of future economic conditions.

When measuring expected credit losses the Company takes into account the risk or probability of a credit loss occurring by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if a credit loss does not occur.

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the Company is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice. For financial assets that include both a loan and an undrawn commitment component, the Company’s ability to demand repayment and cancel the undrawn commitment does not limit the Company’s exposure to credit losses to the contractual notice period. For these financial assets only, the Company measures expected credit losses over the period that it is exposed to credit risk, and expected credit losses cannot be mitigated by credit-risk management actions, regardless whether or not this period extends beyond the maximum contractual period.

ii. Low credit-risk financial assets

The credit risk on a financial asset is considered low, if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers financial assets with an external rating of “investment grade” to have a low credit risk. The low credit risk (i.e. whether the conditions for the rating as a financial asset with a low credit risk still apply) is reviewed by the Company as of every reporting date, taking also into account previous experience with the external ratings agency and its ratings, or the experience available through the parent company.

iii. Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired assets (hereinafter referred to as: “POCI assets”) are impaired on initial recognition. A financial asset is impaired if the occurrence of one or more event has a detrimental impact on the estimated future cash flows of the financial asset (such as for example significant financial difficulty of the issuer or the borrower).

The Company considers financial assets to be POCI assets if the counterparty has Stage-3 status on initial recognition. When calculating the credit-adjusted effective interest rate for POCI assets that are credit-impaired on initial recognition the Company takes the initial estimated credit loss into account in the estimated cash flows, and on the reporting date only recognises cumulative changes since initial recognition in the lifetime expected credit loss in profit or loss.

Special rules governing the impairment of financial assets

i. Impairment of government securities and mortgage bonds

The investment grade category includes the government securities and mortgage bonds which are rated as investment grade by at least two rating agencies from Moody's, Standard & Poor's and Fitch. If a given security is in the investment grade category, the Company considers it to be a low credit risk, classifies it in Stage 1, and applies a 1-year probability of default (PD) to quantify the impairment.

If the given security does not qualify as having a low credit risk as of the measurement date, a threshold calculation (relative change in lifetime probability of default) is required to determine whether the rating of the security has deteriorated significantly since initial recognition.

ii. Impairment of interbank and central bank deposits, sight deposits

The Company's interbank and central bank deposits as well as sight deposits are essentially short-term financial assets measured at amortised cost.

Impairment is only booked on interbank and central bank deposits by the Company if they expire after more than 4 working days following the given close date. Given the short term of these financial assets, impairment is always booked with a 1-year PD.

iii. Impairment of bridging loans and housing loans

In the case of bridging loan/housing loan arrangements, when the contractual amount specified in the home savings contract is paid out, the bridging loan is paid off from the deposits collected by the customer and from the housing loan, without a new loan assessment. The Company measures the expected credit loss for the period it is exposed to credit risk. Owing to the relationship between the bridging loan and the housing loan, for the purposes of assessing impairment and measuring credit loss the period for measuring expected credit loss during the bridging period lasts until the end of the housing loan.

The credit risk still exists during the period of the housing loan, which is why the Company calculates the lifetime expected loss not until the end of the disbursement phase but until the end of the housing loan phase, i.e. until the complete elimination of the credit risk.

When calculating impairment, aside from the losses expected in the bridging loan phase, the housing loan anticipated to be drawn and the expected losses as a result are also quantified (taking the term of the housing loan into account if lifetime expected loss needs to be accounted for).

In the housing loan phase, the impairment takes into account the term of the housing loan if lifetime expected loss needs to be accounted for.

iv. Impairment of deposit-related fee receivables

Concluding home savings contracts creates an account-opening fee receivable for the Company from its customers; these receivables are not exactly loan-type claims, but receivables in relation to which, given their economic substance, the Company is not exposed to a credit risk. If the customer does not pay the account-opening fee by the deadline specified in the contract, the contract lapses and therefore no financial instrument is originated (no deposit, and subsequently no loan). In this case the Company does not incur a loss. In addition, the account-opening fee is a transaction fee that is accounted for in profit or loss over the term of the transaction using the effective interest method, that is, it is not recognised as a revenue right upon entering into the transaction. On this basis, the Company treats these receivables as trade receivables that result from transactions within the scope of IFRS 15 and that do not contain a significant financing component.

v. Impairment of other financial receivables

Other financial assets measured at amortised cost include receivables from sales partners as sales agents, other trade receivables, advances paid to employees as well as compensation receivables and other financial receivables.

The Company treats these receivables as trade receivables that result from transactions within the scope of IFRS 15, and that do not contain a significant financing component. These receivables are measured by the Company at an amount equal to lifetime expected credit loss, applying simplified impairment methodology to determine the impairment. To this end, expected credit losses are quantified using a provision matrix, and drawing on past experience in relation to credit losses.

vi. Impairment of loan commitments

In the case of loan commitments and for the purpose of applying the impairment requirements the Company considers the date of initial recognition to be the date when the Company becomes a party to the irrevocable commitment.

In the case of loan commitments, the Company takes into account the changes in the default risk for the loan to which the loan commitment relates.

In the event certain financial assets comprise both a loan component and an undrawn commitment component, the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Company's exposure to credit losses to the contractual notice period.

Loan commitments in relation to which a loan has been granted receive the same Stage classification and the same impairment rate is applied for them as in the case of the related loan granted.

If there is no loan granted connected to the given loan commitment, the Company assesses the amount of the expected credit loss for the loan commitment on a group basis.

Presentation of loss allowance for expected credit losses in the statement of financial position

The Company recognises loss allowances for financial assets in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments: as a provision. The Company recognises loss allowances for loan commitments separately, as a provision, if the financial instrument contains both a loan component (i.e. a financial asset) and an undrawn commitment component (i.e. a loan commitment).

Write-offs

If there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, then the Company classifies the financial asset as unrecoverable and reduces the gross carrying amount of the financial asset directly. A write-off is a derecognition event, for which the Company applies the rules detailed in Note 7.2 c).

In the case of receivables subject to legal enforcement and classified as unrecoverable during such proceedings and which have been written off as a result, the Company does not terminate the legal proceedings, given that the receivables concerned still exist irrespective of the write-off; however, it does not initiate any further procedural step or other action to enforce the receivable. If as a result of proceedings started before the write-off any recovery is received after the write-off, it is booked on the recorded receivable thus reducing the exposure written off.

The Company classifies a receivable as unrecoverable if:

- there is no cover for it during enforcement;
- there is no cover for it according to the written statement issued by the liquidator;
- there is no cover for it based on the proposal for the distribution of assets;

- the costs of collection are not in proportion to the amount of the receivable (based on legal opinion, receivables below HUF 100,000 can be classified by the Company as unrecoverable without any procedure);
- the debtor cannot be located and this is “documented”;
- it cannot be enforced in a court of law;
- has expired under the term of limitation in accordance with the relevant legislation.

7.4. Cash and cash equivalents

Cash and cash equivalents include cash in hand, the balances of current accounts, and deposits maturing in three months, which the Company uses to settle current liabilities and which do not have a significant fair value risk.

From 1 January 2018 the Company prepares a separate business model test for cash and cash equivalents, in which current accounts are bank accounts whose sole purpose is to handle monetary transactions. The interest on current accounts is only the interest paid on outstanding principal amounts; the fees payable are reasonable compensation for the administrative costs payable to the financial institution.

The Company measures cash and cash equivalents at amortised cost after their initial recognition; related interest is accounted for using the effective interest method.

7.5. Securities

Securities include government bonds and discounted Treasury bills. There are measured at amortised cost based on the business model test and SPPI test performed.

Upon initial recognition, securities measured at amortised cost are measured by the Company at fair value plus or minus transaction costs that are directly attributable to the acquisition of the security. Subsequent measurement is at amortised cost.

The Company considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest and amortisation costs are accounted for using the effective interest method.

7.6. Receivables from customers

Receivables from customers comprise immediate bridging loans and bridging loans (collectively referred to as: bridging loans), housing loans, bridging loans granted based on preferential list of fees, and other customer receivables.

Upon initial recognition, the Company measures receivables from customers at fair value plus or minus transaction costs that are directly attributable to the origination or acquisition of the receivable. Subsequent measurement is at amortised cost based on the business model and SPPI tests conducted.

For receivables from customers measured at amortised cost the Company considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

7.7. Other financial receivables

Other financial receivables mainly include sales agent commission reversals, trade receivables, deposits paid for the office rent and finance lease receivables.

After initial recognition the Company measures these receivables at amortised cost.

7.8. Investments in subsidiaries

A subsidiary is a unit, including unincorporated business associations such as partnerships, which is controlled by a different enterprise, the parent company. The Company controls an entity if, and only if, it has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of its returns.

Following initial recognition the Company measures its subsidiary investment at cost as per IAS 27, less any impairment.

If the carrying amount of the investment exceeds the recoverable amount, the Company records the necessary impairment. If the recoverable amount of the investment exceeds the carrying amount, there is no need for any impairment and the impairment previously recorded can be reversed, but only to the extent that the carrying amount does not exceed the recoverable amount. Such reversals require a careful consideration of future risks and contingent liabilities, as well as the assessment of whether the conditions of reversal are permanent, that is, exist over more than one year.

Impairment is recorded or reversed if it is significant and permanent.

The recoverable amount is the higher of the fair value less costs to sell and the value in use of the interest. If any of the two amounts exceeds the carrying amount of the interest, no impairment needs to be booked on the interest and it is not necessary to calculate the other value. Taking into account IFRS rules on the impairment of interests, the differences between fair value less costs and value in use, and the reliable data available to the Company, the Company primarily applies the value in use method to calculate the recoverable amount of the interest. The Company calculates the value in use applied as the recoverable amount if there is an indication of impairment.

7.9. Property, plant and equipment

The Company classifies assets within the scope of IAS 16 Property, Plant and Equipment and assets within the scope of IFRS 16 Leases into the following groups: own plant and office equipment, own other tangible assets, leased plant and office equipment or assets under construction.

a) Initial recognition and measurement

The Company measures property, plant and equipment at cost, less depreciation and impairment. The cost for property, plant and equipment is the invoiced consideration, including customs duties and non-deductible value added tax, all costs and expenses attributable individually to the property, plant and equipment which arose until such were ready for use, including taxes and duties as well as the value of expected disassembly costs discounted to present value.

The cost of right-of-use assets comprises the present value of net lease payments, less the amount of any lease incentives provided to the lessee, plus direct costs of obtaining the lease incurred by the lessee and the discounted present value of expected costs of restoration obligation, less the amount of any government grants to be deducted from the value of the asset.

b) Measurement after recognition

The Company applies the cost model to measure property, plant and equipment after their initial recognition.

c) Subsequent expenditure

In the carrying amount of an item of property, plant and equipment the Company does not recognise the costs of day-to-day operation. These costs are recognised in profit or loss when incurred.

d) Depreciation

The Company records depreciation on property, plant and equipment from the day such are ready for use. The depreciation on property, plant and equipment is recognised on a straight-line basis, taking into account the expected duration of use and the residual value.

The useful lives defined for property, plant and equipment are as follows:

Categories	useful life (years)
Value created on rented property	up to the term of the rent
Right-of-use assets	up to the term of the rent
IT equipment	3-12 years
Telephones and other telecommunication devices	2-7 years
Furniture, equipment, fittings, administration equipment	7 years
Motor vehicles	4-6 years
Works of art	-
Non-bank machinery and equipment	7 years
Other items of property, plant and equipment	7 years

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

e) Impairment

Details of impairment of property, plant and equipment are included in Note 7.11.

f) Derecognition

The Company derecognises the carrying amount of an item of property, plant and equipment if the asset is disposed, or if no future economic benefits are expected from its use or disposal.

The Company determines the gain or loss arising from the derecognition of an item of property, plant and equipment on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised under other operating income or other operating expense, as appropriate.

7.10. Intangible assets

a) Initial recognition and measurement

Purchased intangible assets

Purchased intangible assets shall be measured at cost less booked amortisation and impairment. For a purchased intangible asset the cost comprises the invoiced consideration, including non-deductible value added tax as well as all costs directly attributable individually to the intangible asset which arose until such was ready for use, including taxes and duties.

Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into:

- a research/assessment phase; and
- a development phase.

The Company recognises research costs as cost when they arise. An intangible asset arising from development or from the development phase of an internal project is recognised and costs can be capitalised if, and only if, the Company can demonstrate that all of the following criteria are satisfied:

- the technical feasibility of completing the intangible asset so that it will be suitable for use or sale;
- the Company's intention to complete the intangible asset, and use it or sell it;
- the Company's ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits. Among other things, the Company shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the Company's ability to reliably measure the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

If the Company cannot distinguish the research/assessment phase from the development phase of an internal project to create an intangible asset, it shall account for the expenditure on the project as expense in the period when it is incurred.

b) Measurement after recognition

The Company applies the cost model to measure intangible assets after their initial recognition.

c) Subsequent expenditure

Costs are capitalised to the carrying amount of the intangible asset until it is brought to the condition that enables it to be operated in the manner intended by management. This means the costs that arise during the use of the asset do not form part of the carrying amount. Subsequent expenditure shall be recognised in profit or loss when incurred and thus cannot be capitalised; this includes, for example, expenses on training activities or advertising and promotion activities.

d) Amortisation

The Company assesses whether the useful life of a given intangible asset is finite or indefinite. The Company does not have any intangible assets with indefinite useful lives. Intangible assets are recognised based on their useful lives.

The amortisation of intangible assets with a finite useful life is recorded from the first day after the asset becomes ready for use.

The useful lives for intangible assets with finite useful lives are as follows:

- Rights and concessions: as per contract, or 3-12 years;
- Intellectual property, own software: 3-12 years.

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Useful lives are reviewed once a year. The Company does not record amortisation for intangible assets that are not yet ready for use, but every year it performs an impairment test, whereby it compares the carrying amount of the intangible asset with its recoverable amount, regardless whether or not there is any indication of impairment.

e) Impairment

Details of impairment of intangible assets are included in Note 7.11.

f) Derecognition

Intangible assets shall be derecognised on disposal, or when no future economic benefits are expected from their use or disposal.

The Company determines the gain or loss arising from the derecognition of an intangible asset on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised in profit or loss under other operating income or other operating expense, as appropriate, when the asset is derecognised.

7.11. Impairment of non-financial assets

If there is an indication that the carrying amount of a non-financial asset exceeds its recoverable amount, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When assessing impairment the Company takes both internal and external information into account.

Irrespective of the amount, the Company always determines the impairment and reversal of impairment on non-financial assets based on individual assessment.

If the carrying amount of the assets is higher than the recoverable amount, then impairment has to be recorded; if it is lower, then the asset's net carrying amount has to be increased by reversing the impairment. Following the reversed impairment the asset's carrying amount may not exceed the original carrying amount less depreciation/amortisation.

The Company recognises impairment under other operating expenses and reversed impairment under other operating income.

7.12. Leases

a) Definition of and identifying a lease

In accordance with IFRS 16 applied, at inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset the Company considers the following:

- the contract includes the use of an identified asset. The identified asset is specified explicitly or implicitly, is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has actual right to substitute the asset, the asset is not identified;
- throughout the period of use, the Company has the right to obtain substantially all of the economic benefits from use; and
- the Company has the right to direct the use of the asset. The Company has this right if it has the decision-making rights relating to issues that significantly influence decisions about how and for what purpose the asset is used. In rare cases, when decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset, if:
    - the Company has the right to operate the asset; or
    - the Company designed the asset in a way that predetermines the decisions about how and for what purpose the asset is used.

The non-lease components of the contracts are not separated. As a practical expedient, the Company has elected not to separate non-lease components from lease components, and instead account for them as a single lease component. The Company assesses each contract whether it contains a lease component.

b) The Company acting as a lessee

As a lessee, the Company has property lease transactions (office, car park and warehouse leases).

The Company recognises the right-of-use asset and the lease liability as at the commencement date.

The right-of-use asset is initially measured at cost, which comprise the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs and an estimate of costs to be incurred in dismantling and removing the underlying asset and restoring the site, less any lease incentives.

After initial recognition, the Company measures the right-of-use asset applying the cost model.

After the commencement date the Company depreciates the right-of-use asset using the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment (Note 7.6). Furthermore, if necessary, the Company periodically books impairment on the right-of-use asset and adjusts its amount for any remeasurement of the lease liability.

Initially the Company recognises the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, using the Company's incremental borrowing rate.

For contracts concluded in HUF, the Company uses BUBOR or BIRS benchmark interest closest to the term of the transaction to determine the incremental borrowing rate. For contracts concluded in EUR, the yield of the German government bond closest to the term of the transaction is adjusted for the difference (Hungarian CDS – German CDS) of CDS quotes specific to the term describing the country risks. In both cases the premium specific in corporate lending is added to this calculated value in line with the size of the transaction.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease, unless the Company is reasonably certain not to terminate early.

After recognition, the Company measures the lease liability using an implicit interest rate that causes the present value of the future lease payments and the unguaranteed residual value to equal the sum of the fair value of the asset and the related incremental costs. . The recognised liability is remeasured if the term of the lease changes, when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee. The Company recognises the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset, or, if the carrying amount of the right-of-use asset is reduced to zero, the adjustment is recognised in profit or loss as other operating income.

The Company presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other non-current financial liabilities' and 'Trade and other current liabilities' in its statement of financial position.

After the commencement date, the Company recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Net finance income/expense', and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs in 'Material-type expenses'. The Company recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense in 'Material-type expenses' on a straight-line basis over the lease term.

c) The Company acting as a lessor

The Company sub-leases offices leased by it, partly to subsidiaries under operating lease contracts, partly to an external third party under a finance lease contract.

When the Company acts as an intermediate lessor, it accounts for head lease and sub-lease contracts separately. The sub-lease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset (in the case of sub-leases the right-of-use asset).

If all material risks and rewards incidental to ownership of the asset is transferred to the lessee, a lease is considered a financial lease. All lease transactions not classified as finance lease are operating leases.

Finance lease

At the commencement date, the Company recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Company uses the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sub-lease, if the interest rate implicit in the sub-lease cannot be readily determined, the Company as intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sub-lease) to measure the net investment in the sub-lease.

Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The Company applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Company applies the requirements relating to derecognition of financial assets (see Note 7.2. c)) and impairment of financial assets (see Note 7.3) to the net investment in the lease, and reviews regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the Company revises the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Leases in terms of which substantially all the risks and rewards of ownership remain with the Company are classified as operating leases. The leased asset is still recognised in the books of the Company. Lease payments received are recognised in profit or loss on a straight-line basis over the related period as other income.

Operating leases

The Company recognises lease payments received under operating leases on a straight-line basis. The Company recognises costs, including depreciation, incurred in earning the lease income as an expense (in 'Depreciation').

The Company adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the sub-leased asset and recognise those costs as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets.

The Company calculates depreciation based on the method described in Note 7.9. c).

The lease transactions of the Company are presented in Note 32.1.

7.13. Liabilities to customers

The liabilities to customers item shall include liabilities from financial services to non-banks and non-financial institutions, including the deposits placed by customers as well as government grants received by customers in connection with their deposits.

The Company measures liabilities to customers at amortised cost. The Company takes the related transaction costs, fees and commissions into account in the effective interest rate calculation, consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

7.14. Other financial liabilities

Under other financial liabilities the Company recognises trade liabilities and liabilities to sales agents as well as other liabilities. The Company measures these items at amortised cost, and they are accounted for using the effective interest method.

7.15. Provisions

The Company recognises provisions if it has a present obligation or liability (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

The Company measures provisions at the present value of the expenses expected to be required to settle the obligation, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks associated with the obligation. The increase in the value of the provisions over time is recognised as an interest expense.

For more details on the provisions recorded by the Company see Note 19.

7.16. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

The Company classifies, among others, loan commitments into contingent liabilities and commitments.

Contingent liabilities are not recognised in the statement of financial position, but are recorded as off-balance sheet items.

For loan commitments the Company recognises impairment.

7.17. Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets include, for example, guarantees received set forth in a contract, deposits and other collaterals accepted from customers in the framework of lending activities.

Contingent assets are not recognised in the statement of financial position, but are recorded in account class 0, since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

7.18. Capital and reserves

a) Share capital

Share capital is the nominal value of issued equity instruments. All amounts are considered share capital that are subscribed by the shareholders or other owners in accordance with relevant laws.

b) Capital reserve

Any amount paid by the Company to acquire its own shares reduces equity directly (the nominal value reduces share capital, the difference between the paid consideration and the nominal value shall be recognised through the capital reserve), regardless whether the repurchased share is immediately withdrawn or held for resale.

Furthermore, the items recognised in equity that cannot be classified in the other equity components are included here too, for example, cash or non-monetary assets received without consideration from the owner in its capacity as owner.

c) Retained earnings

Retained earnings essentially include the following:

- The reserves derived from the profits or losses of previous periods:
    - profit or loss carried forward from previous years;
    - any movements derived from transfers between retained earnings and other equity components;
- the impacts of the retrospective application of changes in accounting policies, except when transitional provisions of a standard or interpretation require the impacts of retrospective application as adjustments to other components of equity;
- amounts restated retrospectively due to error corrections, except when a standard or interpretation requires the retrospective restatement of another equity component;
- gains and losses that must be recognised directly in retained earnings.

Dividend payments are decided upon by the General Meeting, and must be recognised directly against retained earnings as of the day of the dividend decision.

d) Valuation reserve

The valuation reserve contains the unrealised gains and losses from the fair value measurement of financial instruments, i.e. the changes in the fair value of financial assets at fair value through other comprehensive income.

e) Statutory reserves

Statutory reserves are the reserves required by law, which for the Company can be the following: settlement reserve and general reserve.

Settlement reserve

With a view to protecting those with home savings contracts, the Company recognises a settlement reserve from the yield on the placement of free assets defined by Act CXIII of 1996 on Home Savings and Loan Associations (hereinafter referred to as: Home Savings and Loans Act), and on 31 December of the reporting year supplements the settlement reserve recognised in the previous year. The settlement reserve is outside the scope of IAS 37. In the IFRS financial statements the Company recognises the settlement reserve from retained earnings and it is a dividend threshold.

The base for the settlement reserve recognised in the reporting year shall be calculated as the difference between the reporting-year yield on the placement of free assets (including the fee income received on bridging loans as well as commissions paid and expected to be payable, and the impairment recorded on such loans) and the interest amount on the average portfolio of free assets in the reporting year determined using the rate of collective interest. The settlement reserve may not exceed 10% of the deposit portfolio as of 31 December of the reporting year.

The Company shall use the settlement reserve to settle the difference between the interest payable pro rata for the reporting year on any loan drawn to cover the granting of housing loans, and the pro rata interest for the reporting year on such loans determined using the rate of collective interest.

The recording and use of the settlement reserve affects the retained earnings and therefore does not influence the given year's profit or loss in any way.

General reserve

In accordance with Section 83 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter referred to as: "Credit Institutions Act"), a general reserve amounting to ten percent of the after-tax profit must be recognised. A general reserve recognised and used in accordance with Hungarian legal regulations directly affects retained earnings in the financial statements, so there is no impact on the given year's profit or loss.

7.19. General principles on revenue recognition based on IFRS 15

The Company account for customer contracts only if all of the following conditions are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations;
- the Company can identify each party's rights regarding the goods or services to be transferred;
- the Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Company considers only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the Company will be entitled may be less than the price stated in the contract if the consideration is variable because the Company may offer the customer a price concession.

If a contract with a customer meets the criteria above at contract inception, the Company reassesses those criteria only if there is an indication of a significant change in facts and circumstances.

The Company recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For each performance obligation identified, the Company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- the Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date.

In any other case, the performance is at a point in time.

When (or as) a performance obligation is satisfied, the Company recognises as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained) that is allocated to that performance obligation.

When determining the transaction price the Company takes contractual terms and conditions and its customary business practice into account; the estimated transaction price is influenced by the nature, timing and amount of consideration promised by the customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (such as sales taxes). When determining the transaction price the Company assumes that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

7.20. Interest income and interest expense

The interest income item in the income statement may only include interest income determined using the effective interest method. The Company currently only has assets measured at amortised cost.

When using the effective interest method the Company applies the effective interest rate to the gross carrying amount of the financial asset, except for the following:

- purchased or originated credit-impaired financial assets, where the Company applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition;
- financial assets that subsequently became credit-impaired financial assets. For these financial assets the Company applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

In line with the above rule, for loans that are not credit-impaired (i.e. classified in Stage 1 and Stage 2) the Company applies the effective interest rate to the gross carrying amount, while for credit-impaired loans (classified in Stage 3) to the net carrying amount.

Interest income and interest expense comprise the interest income and interest expense along with commission income and commission expense as well as other fees that are part of the effective interest rate calculation for the individual financial assets and financial liabilities.

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument (or a shorter period if appropriate) to the net carrying amount of the financial asset or financial liability.

The accounting policy applied by the Company for amounts recognised in interest income/interest expenses upon modification of financial assets and liabilities is described in Note 7.2 d).

7.21. Fee and commission income, fee and commission expense

The accounting of income related to the fees for financial services depends on the targets in relation to which the fees were determined, and depends on the accounting basis for the associated financial instruments. Fees that form an integral part of the effective interest rate for a financial instrument are recognised by the Company under interest income or interest expense.

Under fee and commission income and fee and commission expenses the Company recognises the fees and commissions related to loans and deposits along with the commissions on other securities transactions and payment transactions which do not form an integral part of the effective interest rate for the financial instruments.

This fee and commission income is recognised when the Company provides the related service, and the fee and commission expense is recognised when the service is performed.

7.22. Dividend income

The Company accounts for dividend income when the dividend payment is approved and the amount can be reliably quantified.

The Company can receive dividend income from its subsidiary, the amount of which is approved by the owner of the subsidiary, i.e. the Company's Board of Directors, and until such time there is no dividend entitlement.

Interim dividends must be accounted for as a liability against the cash payment.

7.23. Net trading income/expense

The net trading income/expense comprises the exchange differences (gains and losses) derived from changes in the exchange rate.

7.24. Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost

Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost includes net profit/loss arising from derecognition of securities classified as measured at amortised cost.

7.25. Employee benefits

Short-term employee benefits are accounted for as current costs in the period when the employee rendered the service in return for the benefits. Short-term employee benefits are employee benefits (other than termination benefits) that shall be settled within twelve months after the end of the period in which the employee renders the related service to the Company. Paid leave (for example summer holiday, etc.) shall be recognised in the period when the employee works. When an employee accumulates unused holiday entitlement, the Company recognises an accrued expense item so that the Company does not account for the cost when the employee takes the holiday, given that the employee does not perform a service for the Company during the holiday period. Bonuses and task-specific bonuses payable to staff, recognised under provisions (if long-term) and under accruals (if short-term), are accounted for by the Company under personnel expenses (Other operating costs).

The Company currently does not provide post-employment benefits.

Other long-term employee benefits provided by the Company include bonuses that the Company is not likely to pay in full before twelve months have elapsed from the end of the annual reporting period during which the employees rendered the related services.

7.26. Income tax

The Company considers corporate tax, local business tax and innovation contribution as income taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income and directly in equity, in which case it is recognised in other comprehensive income and in equity.

Current tax is the expected tax payable on the taxable income for the reporting year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

The Company shall offset deferred tax assets and deferred tax liabilities if, and only if:

- it has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is only recognised by the Company to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Based on the above, in the reporting year the Company determined the tax assets and liabilities from and to the National Tax and Customs Administration separately (on a net basis). As from 1 January 2019 the Group elected to operate as a corporate tax group.

The tax assets and liabilities from and to local governments are determined (net) for all local tax authorities on an aggregate basis.

7.27. Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The Company has no items that are to be recognised in other comprehensive income and which will not need to be reclassified to profit or loss subsequently.

8. New standards and interpretations not yet adopted

The standards, standard amendments and interpretations presented below were not applied in the financial statements since they are not yet in force for the financial year ended 31 December 2018, and the Company did not elect to early apply them either.

a) IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covers recognition, measurement, presentation and related disclosures. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

IFRS 17 shall be applied in annual reporting periods beginning on or after 1 January 2022, with restated comparative information. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 is not relevant for the Company.

b) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendment addresses the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that adopts the amendments early must apply them retrospectively. The Company does not expect any effect on its financial statements.

c) Amendments to IAS 39, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform

As a result of the interest rate benchmark reform, to manage accounting effects of uncertainties caused by the reform temporary reliefs were provided in relation to hedge accounting requirements of existing standards that regulate financial instruments.

The temporary amendments are effective for annual reporting periods beginning on or after 1 January 2020 in the period leading up to IBOR reform. Early application is permitted. The amendments are not relevant to the operation of the Company.

d) Amendments to IAS 1 and IAS 8: Definition of material

The objective of the amendment is to clarify and standardise the definition of material.

The amendment is effective for annual reporting periods beginning on or after 1 January 2020. The Company does not expect any effect on its financial statements.

e) IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it shall apply the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. The Company does not expect any effect on its financial statements.

The amendment is effective for annual reporting periods beginning on or after 1 January 2020. The Company does not expect any effect on its financial statements.

f) IFRS Conceptual Framework

As part of renewing the IFRS standards, the Conceptual Framework was also revised. During the revision, a number of chapters were changed and new ones added:

- The principle of prudence to support neutrality was added to the qualitative characteristics of useful financial information.
- A new element is the definition of reporting entity as an entity that is required, or chooses, to prepare financial statements. This does not necessarily match the definition of a legal entity.
- With regard to elements of the financial statements, the definitions of assets and liabilities were clarified. With regard to assets, the terms “as a result of past events” and “present control” remain, but “inflow of future economic benefits” is replaced by “economic resource” which represents a right that has the potential to produce economic benefits. With regard to liabilities, the terms “as a result of past events” and “present obligation” stay the same, but “outflow of future economic benefits” is replaced by “transfer of economic resources”. Since these terms are used with the other three notions (equity, return and expense), these notions have been indirectly modified too.

- Recognition criteria are now directly linked with basic qualitative characteristics (relevance, faithful representation), and general rules on derecognising assets and liabilities have been added.
- Measurement bases are categorised into two groups in the new Conceptual Framework: historical cost and current value. Within the latter, a distinction is made between fair value, value in use (for assets) and fulfilment value (for liabilities) and current cost.

The amendment is effective for annual reporting periods beginning on or after 1 January 2020. The Company does not expect any effect on its financial statements.

Notes to the financial statement items

9. Cash and cash equivalents

Table 9.1 - Cash and cash equivalents

(HUF million)	31.12.2019	31.12.2018
HUF current accounts held at MNB	82	153
Deposit accounts held at MNB and due within 3 months	45,450	11,000
HUF and FX current deposit accounts held at other credit institutions	321	266
Credit institution deposits with a maturity period less than 3 months	10,500	0
Impairment allowance (-)	0	0
Total cash and cash equivalents	**56,353**	**11,419**

10. Securities

Table 10.1 - Securities

(HUF million)	31.12.2019	31.12.2018
Investment securities measured at amortised cost	109,513	121,522
Impairment allowance (-)	-101	-243
Total securities	**109,412**	**121,279**

Securities include Hungarian government bonds and discounted Treasury bills.

Table 10.2 - Securities measured at amortised cost - reporting year

(HUF million)	31.12.2019
2020/A MÁK	14,311
2022/A MÁK	13,776
2023/A MÁK	7,402
2024/B MÁK	6,698
2024/C MÁK	18,163
2025/B MÁK	7,805
2026/D MÁK	1,408
2027/A MÁK	10,439
2028/A MÁK	11,719
2031/A MÁK	8,730
2038/A MÁK	7,442
D200226	999
D200429	520
Total debt instruments	**109,412**

Table 10.3 - Securities measured at amortised cost - previous year

(HUF million)	31.12.2018
2019/A MÁK	29,116
2020/A MÁK	14,395
2022/A MÁK	13,869
2023/A MÁK	7,493
2024/B MÁK	6,669
2025/B MÁK	7,902
2026/D MÁK	1,395
2027/A MÁK	10,387
2028/A MÁK	11,911
2031/A MÁK	8,692
2038/A MÁK	7,403
D190227	2,047
Total debt instruments	**121,279**

11. Receivables from customers

Table 11.1 - Overview of receivables from customers

(HUF million)	31.12.2019	31.12.2018
Receivables from customers measured at amortised cost	457,902	413,723
Impairment allowance (-)	-4,726	-4,634
Total receivables from customers	**453,176**	**409,089**

Table 11.2 - Receivables from customers (by product type)

(HUF million)	31.12.2019			31.12.2018		
	Gross value	Expected credit loss	Carrying amount	Gross value	Expected credit loss	Carrying amount
Retail customers:						
Bridging loans	98,950	-250	98,700	99,454	-255	99,199
Immediate bridging loans	296,175	-3,989	292,186	255,470	-3,846	251,624
Housing loans	53,562	-290	53,272	51,097	-340	50,757
Other receivables from customers	122	0	122	229	0	229
Multi-occupancy buildings, cooperatives:						
Bridging loans	1,711	-4	1,707	1,564	-3	1,561
Immediate bridging loans	5,323	-182	5,141	4,115	-179	3,936
Housing loans	2,057	-10	2,047	1,790	-11	1,779
Other receivables from customers	1	0	1	4	0	4
Total	**457,901**	**-4,725**	**453,176**	**413,723**	**-4,634**	**409,089**

12. Other financial receivables

Table 12.1 - Other financial receivables

(HUF million)	31.12.2019	31.12.2018
Lease receivables	231	0
Trade receivables	3	0
Security deposit	266	259
Other	56	20
Impairment allowance (-)	-23	-12
Total other financial receivables	**533**	**267**

The increase in the reporting year relates to the finance lease liability recognised under IFRS 16; this is also the reason for the rise in impairment allowance.

13. Investments in subsidiaries

Fundamenta-Lakáskassza Pénzügyi Közvetítő Korlátolt Felelősségű Társaság

The Company is the sole owner (31.12.2018: 100%) of Fundamenta-Lakáskassza Kft. The subsidiary's activity includes financial service brokerage as a multi-agent, work as a tied agent brokering mortgage loans, and in the case of other products (e.g. home savings contracts) tied-agent activity as well as insurance brokerage as a tied (multi-) agent.
The carrying amount of the investment as of 31 December 2019 was HUF 459 million (31 December 2018: HUF 459 million). No impairment was recognised.

Table 13.1- Equity and reserves of Fundamenta-Lakáskassza Kft.

(HUF million)	31.12.2019	31.12.2018
Registered capital	150	150
Capital reserve	306	306
Retained earnings	2,374	959
Profit/Loss for the year	-724	1,415
Total equity components of the subsidiary	**2,106**	**2,830**

The current-year loss of the subsidiary following the prior-year profit was caused by the decrease in commission income.

Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Korlátolt Felelősségű Társaság

The parent company established Fundamenta Értéklánc Kft. in the reporting year; it is the sole owner of the subsidiary. The deed of foundation of the subsidiary is dated 18 March 2019.
The carrying amount of the investment as of 31 December 2019 was HUF 900 million. No impairment was recognised.

Table 13.2- Equity and reserves of Fundamenta Értéklánc Kft.

(HUF million)	01.01.2019
Registered capital	50
Capital reserve	850
Retained earnings	0
Loss for the year	-79
Total equity components of the subsidiary	**821**

The first-year loss of the subsidiary was due to the modest, although constantly increasing, income compared to costs.

14. Property, plant and equipment

Table 14.1 - Changes to property, plant and equipment

(HUF million)	Value created on rented property	Office equipment	Motor vehicles	Assets under construction	Total
Gross value					
Balance at 1 January 2018	***760***	***2,456***	***319***	***1***	***3,536***
Installation	0	235	88	-323	**0**
Purchase	0	0	0	411	**411**
Disposals	0	-5	-39	0	**-44**
Balance at 31 December 2018	***760***	***2,686***	***368***	***89***	***3,903***
Balance at 1 January 2019	***760***	***2,686***	***368***	***89***	***3,903***
Installation	1,321	1,038	99	-2,458	**0**
Purchase	0	0	0	2,415	**2,415**
Disposals	-680	-416	-71	0	**-1,167**
Other reclassifications	0	0	0	-46	**-46**
Balance at 31 December 2019	***1,401***	***3,308***	***396***	***0***	***5,105***
Depreciation and impairment					
Balance at 1 January 2018	***-672***	***-1,281***	***-87***	***0***	***-2,040***
Depreciation for the year	-48	-270	-44	0	**-362**
Impairment recognised in profit or loss	0	-18	0	0	**-18**
Disposals	0	4	30	0	**34**
Balance at 31 December 2018	***-720***	***-1,565***	***-101***	***0***	***-2,386***
Balance at 1 January 2019	***-720***	***-1,565***	***-101***	***0***	***-2,386***
Depreciation for the year	-119	-361	-49	0	**-529**
Disposals	680	402	39	0	**1,121**
Balance at 31 December 2019	***-159***	***-1,524***	***-111***	***0***	***-1,794***
Net value					
Balance at 31 December 2018	***40***	***1,121***	***267***	***89***	***1,517***
Balance at 31 December 2019	***1,242***	***1,784***	***285***	***0***	***3,311***

Reporting-year changes in right-of-use assets related to leases are presented separately in Note 32.1. The 2019 increase in the gross value of tangible assets is primarily due to purchase of office equipment, furniture and IT equipment related to the new headquarters.

Contractual commitments of the Company connected to future acquisitions amounted to HUF 27 million as at 31 December 2019 (2018: HUF 261 million).

15. Intangible assets

Table 15.1 - Changes to intangible assets

(HUF million)	Internally developed software	Intellectual property	Rights and concessions	Intangible assets not taken into use	Total
Gross value					
Balance at 1 January 2018	***1,187***	***1,328***	***5,985***	***105***	***8,605***
Capitalisation	72	67	885	-1,024	**0**
Internal development	0	0	0	50	**50**
Purchase	0	0	0	1,271	**1,271**
Balance at 31 December 2018	***1,259***	***1,395***	***6,870***	***402***	***9,926***
Balance at 1 January 2019	***1,259***	***1,395***	***6,870***	***402***	***9,926***
Capitalisation	625	116	662	-1,403	**0**
Acquisitions	0	0	0	1,196	**1,196**
Disposals	-6	0	0	0	**-6**
Balance at 31 December 2019	***1,878***	***1,511***	***7,532***	***195***	***11,116***
Amortisation and impairment					
Balance at 1 January 2018	***-194***	***-824***	***-820***	***0***	***-1,838***
Amortisation for the year	-120	-168	-712	0	**-1,000**
Balance at 31 December 2018	***-314***	***-992***	***-1,532***	***0***	***-2,838***
Balance at 1 January 2019	***-314***	***-992***	***-1,532***	***0***	***-2,838***
Amortisation for the year	-159	-200	-815	0	**-1,174**
Disposals	7	0	0	0	**7**
Balance at 31 December 2019	***-466***	***-1,192***	***-2,347***	***0***	***-4,005***
Net value					
Balance at 31 December 2018	***945***	***403***	***5,338***	***402***	***7,088***
Balance at 31 December 2019	***1,412***	***319***	***5,185***	***195***	***7,111***

In the case of internally developed software, the internal development item includes personnel expenses arising during the development of the software.

The gross value of intangible assets rose as a result of IT development at the Company.

In 2019 research and development expenses booked totalled HUF 18 million (in 2018: HUF 18 million).

As at 31 December 2019 the Company had no contractual commitments related to future acquisitions of intangible assets (2018: HUF 69 million).

16. Other assets

Table 16.1 - Other assets

(HUF million)	31.12.2019	31.12.2018
Inventories	16	27
Accruals and deferrals	506	479
Advances	25	560
Other items similar to tax	74	34
Further other assets	143	39
Total other assets	**764**	**1,139**

The decrease in advances is due to advances paid in 2018 for the construction of the new headquarters of the Company, which were already accounted for in the reporting year.

17. Liabilities to customers

Table 17.1 - Liabilities to customers (product type)

(HUF million)	31.12.2019	31.12.2018
Retail customers:		
Payments by customers and interest thereon	427,755	371,043
Government grant and interest thereon	105,372	89,320
Other liabilities to customers	747	1,006
Multi-occupancy buildings, cooperatives:		
Payments by customers and interest thereon	22,887	20,635
Government grant and interest thereon	5,612	5,080
Other liabilities to customers	42	44
Total liabilities to customers	**562,415**	**487,128**

The home saver or the beneficiary thereof is entitled to government grant in the given savings year on the amount of monthly savings made, in line with the deposit amount paid in the given savings year; the government grant is given every savings year by the Hungarian State Treasury (MÁK). Changes in legal regulations related to government grant that entered into force on 17 October 2018 are included in Note 38.

The amount of government grant is transferred by the MÁK, then the Company credits this once a year to the separate home savings account of the home saver within a month of the end of the savings year. The Company treats the credited government grant and related interest separately on the account of the home saver. Credited government grant is recognised under liabilities to customers in the statement of financial position.

For savings years beginning after 1 January 2007, those who do not make regular payments during the savings year may miss out on government grant and interest. (For the amount paid in the third and fourth savings quarter, maximum 25% of the government grant earned based on the entire annual saving may be requested from the Hungarian State Treasury in each quarter.) Entitlement to government grant is lost by home savers if the savings period does not last for four years until the deposit is withdrawn, or the deposit increased with the government grant and interest is not used for appropriate housing purposes within Hungary. If the savings period is shorter than four years when the deposit is withdrawn, the Company deducts all the credited government grant from the separate account of the home saver, together with all the credited deposit interest, and transfers the deducted amount to the Hungarian State Treasury. If the beneficiary, or for lack of such, the home saver does not use part of the amount – underlying the government grant entitlement – for housing purposes, the proportionate sum of the government grant including the deposit interest is deducted by the Company from the home saver's separate account, and the deducted amount is transferred to the central budget; if the home saver or the beneficiary has already withdrawn the amount increased with the government grant, a proportionate sum of the government grant must be repaid.

18. Other financial liabilities

Table 18.1 - Other financial liabilities

(HUF million)	31.12.2019	31.12.2018
Liabilities related to leases	6,544	0
Liabilities from commissions to sales agents	547	548
Trade liabilities	60	81
Accruals, deferrals and other items	541	564
Total other financial liabilities	**7,692**	**1,193**

The significant growth in other financial liabilities was due to lease liabilities recognised as a result of implementing IFRS 16. Further information on leases is included in Note 32.1.

19. Provisions

Table 19.1 - Balance of provisions

(HUF million)	31.12.2019	31.12.2018
Provision for litigations	5	5
Provision for points verified in points campaign	10	29
Provision for retention commissions	749	742
Provision for quality commission bonus	215	1,025
Provision for other liabilities	460	347
Provision for credit facilities	102	75
Total	**1,541**	**2,223**

Because of the decrease in the number of new savings contracts concluded due to the change to the Home Savings and Loans Act described in Note 38, and the drop in the size of the commission, the amount of provision for quality commission bonus fell very considerably in the reporting year.

The table below presents changes to provisions recognised based on IAS 37:

Table 19.2 - Changes to provisions

(HUF million)	Provision for litigations	Provision for points verified in points campaign	Provision for retention commissions	Provision for quality commission bonus	Provision for other liabilities	Provision for credit losses	Total
Balance at 1 January 2018	***8***	***49***	***678***	***612***	***122***	***71***	***1,540***
Provisions made during the period	0	22	76	413	341	882	***1,734***
Provisions used during the period	0	-42	-12	0	-116	-878	***-1,048***
Provisions released during the period	-3	0	0	0	0	0	***-3***
Balance at 31 December 2018	***5***	***29***	***742***	***1,025***	***347***	***75***	***2,223***
Provisions made during the period	5	0	29	0	267	651	**952**
Provisions used during the period	-5	-19	-22	-810	-150	-625	**-1,631**
Provisions released during the period	0	0	0	0	-3	0	**-3**
Balance at 31 December 2019	***5***	***10***	***749***	***215***	***461***	***101***	***1,541***
Non-current portion	***5***	***0***	***408***	***16***	***317***	***0***	***746***
Current portion	***0***	***10***	***341***	***199***	***144***	***101***	***795***

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19.1. Provisions for pending litigation

When evaluating during litigation whether a past event resulted in a present obligation, the Company takes into account expert opinions (internal or external), judicial practice in similar cases as well as experience from authorities and the profession to estimate the expected loss. The amount of any provision for litigation is determined using the expected payable amount (e.g. compensation), together with the default interest (based on the central bank's key interest rate), and legal costs.

In the event the lawsuit is lost, the Company uses the provision; otherwise it releases the provision. Provisions are used and released at the level of individual cases.

19.2. Provision for points verified in points campaign

In the points campaign advertised among the employees of partners, the employees can earn points on the contracts they broker, which can be redeemed for gifts in a defined manner. A provision is recorded for future liabilities in connection with the points that have not been redeemed as of the reporting date, which contains the total cost expected to be paid based on the contract. The Company does not recognise provisions for the points that employees of the given partner are not likely to redeem.

19.3. Provisions for retention commissions

In the case of commissions payable on loans, a contract commission is calculated when concluding the contract, and a retention commission is calculated in line with legal provisions after the contract. The retention commission is paid in the period after the contract is concluded. The length of the period depends on the term of the contract. The Company recognises a provision for expected retention commission payments existing as of the reporting date.

An expected cash flow is recorded based on the product of the selected, unpaid commissions and the probability of payment based on experience. The amount of the provision is the discounted present value of the recorded cash flow.

19.4. Provision for quality commission bonus

The quality commission bonus relates to the savings contracts brokered by Fundamenta-Lakáskassza Kft. (hereinafter referred to as: the Kft.).

If the contracting party pays at least 1 monthly savings amount on the given savings contract within 6 months of concluding the contract, then the Company pays a commission bonus to the Kft. in line with the prevailing contract.

If the actual amounts paid on the given savings contract within 12 months of concluding the contract total at least 80% of the expected amount of payments, then the Company pays a commission bonus to the Kft. in line with the prevailing contract. If this ratio falls short of 30%, then the contract commission previously paid and the bonus commission are reversed by the Company, and the provision to be recorded is reduced by the expected amount of this reversal of bonus commission.

If the given savings contract is terminated within 12 months of the contract conclusion date, then the contract commission previously paid and – where applicable – the bonus commission are reversed by the Company, and the provision to be recorded is reduced by expected amount of this reversal of bonus commission.

To calculate the provision the Company applies the discounted cash flow method: the cash flow is recorded on a monthly basis, which is discounted back by the Company with a 7-year government security yield to the given reporting date. The expected cash flow contains the expected commission bonus payments and the expected bonus commission reversals. The expected cash flow, the expected savings start dates and payments, and the expected contract cancellations are forecast by the Company based on prior experience.

19.5. Provision for other liabilities

Provisions for other commitments comprises the following main items:

- The Company recognises provisions for the amounts of reporting-year competition prizes and the calculated commissions – if no payment was made in the reporting year – since the exact amount is not yet known.
- Based on the Company's remuneration policy, the payment of task-specific bonuses to a select group of senior managers is distributed over several years. The amounts due for payment in the following year are accrued by the Company, while a provision is recognised for the payments affecting subsequent years. The amounts derived from previous-year results but affecting subsequent years are not fixed in light of the backtesting of multi-year targets; they are recalculated depending on the yearly reassessment and based on the updated forecasts.
- In connection with the amendment to the Home Savings and Loans Act in October, a significant number of offers and contract amendments were received dated 16 October 2018, which was late compared to the deadline set by the Company. For the offers and amendments which were received after 18 October 2018 but the delay was not attributable to the client, the Company will pay compensation following a management decision, and it has recognised a provision for this.

20. Other liabilities

Table 20.1 - Other liabilities

(HUF million)	31.12.2019	31.12.2018
Accruals and deferrals	1,705	1,537
Cancelled government grant	202	154
Other liabilities related to employees	665	574
Payment liabilities to tax authorities	52	43
Total other liabilities	**2,624**	**2,308**

21. Equity

21.1. Share capital

The Company's official, issued, called and fully paid share capital comprises 200,100 (31 December 2018: 200,100) shares, each with a nominal value of HUF 10,000 (31 December 2018: HUF 10,000). Issued shares are completely equal in the event of a liquidation.

21.2. Capital reserve

Capital reserve amounted to HUF 2,100 million as at 31 December 2019 and HUF 2,100 million as at 31 December 2018. Since the capital restructuring carried out during the merger of Lakáskassza-Wüstenrot Rt. and Fundamenta Rt. as of 1 July 2003 the amount of the capital reserve has not changed.

The value of the capital reserve did not change because the capital reserve is not directly distributable, the amount can change only in certain cases (withdrawal form capital reserve accompanied by asset withdrawal and transfer to other components of equity).

21.3. Retained earnings

The Company's retained earnings comprises the accumulated earnings of previous years less dividends paid to owners.

HUF 2,500 million was recognised both in 2019 and in 2018 as distribution to the shareholders. Dividend per share was HUF 12,494/share in 2019 (2018: HUF 12,494/share).

After the reporting date the Company's management proposed to approve a dividend payment of HUF 2,500 million. This amount was not recognised as a liability and there is no tax implication.

21.4. Statutory reserves

Settlement reserve

Rules relating to making the settlement reserve are described in Note 7.18 e).

No settlement reserve was made in the reporting year.

General reserve

Rules relating to making and using general reserve are described in Note 7.18 e).

In the reporting year the Company made HUF 700 million general reserve from retained earnings. The reserve was not used during the year.

22. Net interest income

22.1. Interest income

Table 22.1.1 - Interest income

(HUF million)	2019	2018
Interest income from cash and cash equivalents	8	12
Interest income from securities	5,283	5,880
Interest income from government bonds	*5,281*	*5,874*
Interest income from discounted Treasury bills	*2*	*6*
Interest income from receivables from customers	23,959	21,355
Interest income from immediate bridging loans	*15,960*	*13,795*
Interest income from bridging loans	*5,128*	*4,924*
Interest income from housing loans	*2,867*	*2,636*
Interest income from lease transactions	*4*	*0*
Total interest income	**29,250**	**27,247**

HUF 29,346 million (2018: HUF 27,397 million) of interest income presented in the above table was accounted for using the effective interest method. Furthermore, interest income includes the gain or loss from the modification of financial assets not resulting in derecognition as well as from change in the estimate relating to the expected cash flows of the instrument; this reduced interest income by HUF 96 million (2018: HUF 150 million).

22.2. Interest expense

Table 22.2.1 – Interest expense

(HUF million)	2019	2018
Interest expense on liabilities to customers	-8,391	-8,064
Interest expense paid on amounts paid by customers	*-7,198*	*-6,944*
Interest expense attributable to government grant	*-1,193*	*-1,120*
Negative interest income on financial assets	-5	-6
Interest expense on leases	-186	0
Total interest expense	**-8,582**	**-8,070**

Interest expense rose due to the higher volume of deposits as well as to interest expense accounted for under IFRS 16 in relation to lease liabilities.

23. Net fee and commission income/expense

23.1. Fee and commission income

Table 23.1.1 – Fee and commission income

(HUF million)	2019	2018
Fee and commission income from home savings transactions	1,358	1,769
Fee income from loans	345	282
Fee income from deposits	1,013	1,487
Other fee and commission income	449	379
Total fee and commission income	**1,807**	**2,148**

The change in fee and commission income from deposits is explained by the decrease in the number of deposit contracts.

23.2. Fee and commission expense

Table 23.2.1 – Fee and commission expense

(HUF million)	2019	2018
Commission expense on loans	-300	-393
Commission expense on deposits	-203	-1,665
Commission expense on securities transactions	-11	-10
Commission expense on payment transactions	-437	-453
Total fee and commission expense	**-951**	**-2,521**

24. Dividend income

The Company had no dividend income from its subsidiaries either in 2018 or 2019.

25. Net trading income/expense

Table 25.1 - Net trading income/expense

(HUF million)	2019	2018
Foreign exchange differences	-187	13
Total net trading income/expense	**-187**	**13**

The significant change in the foreign exchange difference was caused by the weakening forint and lease liabilities under IFRS 16 denominated in FX.

26. Net profit arising from derecognition of financial assets and liabilities measured at amortised cost (AC)

Table 26.1 – Net profit arising from derecognition of financial assets measured at amortised cost

(HUF million)	2019	2018
Net gain on sale of securities measured at amortised cost	171	2,644
Government securities	*151*	*2,545*
Discounted Treasury bills	*20*	*99*
Net profit arising from derecognition of financial assets and liabilities measured at amortised cost	**171**	**2,644**

Securities are classified by the Company as measured at amortised cost, and so the net profit/loss arising from their derecognition is recognised in the income statement under net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost. The reason for the difference between the two periods is that in the previous year securities of a significant amount were sold before maturity.

27. Change in impairment of financial assets and changes in credit provisions

Table 27.1 - Change in impairment of financial assets and changes in credit provisions

(HUF million)	2019	2018
Impairment of cash and cash equivalents and reversal thereof	0	4
Impairment of receivables from customers and reversal thereof	-613	-466
Impairment of securities and reversal thereof	88	-134
Impairment of other financial receivables and reversal thereof	-11	-1
Changes in provision for loan commitments	-27	-4
Total changes in impairment of financial assets and in credit provisions	**-563**	**-601**

The increase in impairment booked on receivables from customers results from the year-end review of the impairment model.

28. Other operating income

Table 28.1 - Other operating income

(HUF million)	2019	2018
Income accounted for upon free receipts	3	15
Profit from re-charged services	360	285
Miscellaneous income	195	79
Total other operating income	**558**	**379**

29. Other operating expenses

Table 29.1 - Other operating expenses

(HUF million)	2019	2018
NDIF annual fee, fee to the Resolution Fund	-550	-761
Impairment booked on intangible assets, plant, equipment, vehicles and other assets	0	-18
Free transfers, donations	-3	-1
Change in provisions for pending litigations (net)	0	3
Other expenses due to tax	-943	-940
Miscellaneous expenses	-126	-236
Total other operating expenses	**-1,622**	**-1,953**

The National Deposit Insurance Fund (NDIF) revised the calculation of the NDIF fee during the year, an as a result, the fee payable decreased considerably.

30. Operating costs

Table 30.1 - Personnel expenses

(HUF million)	2019	2018
Wage costs	-3,981	-4,118
Taxes and contributions	-871	-981
Costs related to unused holidays	-15	-36
Other	-147	-77
Total personnel expenses	**-5,014**	**-5,212**

Year-end headcount as at 31 December 2019 was 636 (31.12.2018: 663).

Table 30.2 - Material-type expenses

(HUF million)	2019	2018
Office stationery	-1,065	-909
Building maintenance costs	-141	-190
Contributions and fees	-81	-71
Expenses of hired personnel	-61	-59
Advisory services	-391	-417
IT costs	-1,298	-1,119
Rentals	-235	-359
PR/marketing costs	-494	-758
Authorities	-234	-208
Other costs	-189	-210
Total material-type expenses	**-4,189**	**-4,300**

Table 30.3 - Depreciation/ Amortisation

(HUF million)	2019	2018
Property, plant and equipment	-529	-362
Intangible assets	-1,174	-1,000
Right-of-use assets	-586	0
Total	**-2,289**	**-1,362**

The 68% increase in depreciation/amortisation in the reporting year is owing to the depreciation booked on right-of-use assets recognised under IFRS 16.

31. Income taxes

The Company considers corporate tax, local business tax and innovation contribution as income taxes. The taxable bases for the individual tax types differ.

In Hungary the standard rate of corporate tax is 9%, which is why the Company assumes this rate of tax when calculating tax. The corporate tax base is defined based on Act LXXXI of 1996 on Corporate and Dividend Tax.

The rate of local business tax is no more than 2%; the individual local governments can make their own decisions on the rate. The base for local business tax is the reporting-year sales revenue, less material costs, the cost of goods sold and the value of re-invoiced services, and adjusted for other reconciling items. Reporting-year sales revenue contains interest income along with the fee and commission income from home savings transactions. In addition, sales revenue also includes the exchange gain realised on securities as well as the revenue from sales of inventories and services. Egyéb módosító tételek a kamatbevétel csökkentéseként az üzleti évben elszámolt fizetett, fizetendő díjak, jutalékok összege. Other reconciling items include paid and payable fees and commissions accounted for in the financial year that reduced the amount of interest income.

The innovation contribution rate is 0.3% and is calculated using the same base as the local business tax.

31.1. Income tax booked for the current period

Table 31.1.1 - Income tax booked for the current period

(HUF million)	2019	2018
Current income tax		
Income tax on profit for the year	-1,908	-1,650
Total current income tax (expense (+)/ income (-))	**-1,908**	**-1,650**
Deferred tax expense		
Origination and reversal of temporary differences	523	154
Total deferred tax expense (+) / income (-)	**523**	**154**
Total income tax	**-1,385**	**-1,496**

31.2. Income tax recognised in the statutory reserve

The Company recognises deferred tax on the settlement reserve in the statutory reserve; it amounted to HUF 688 million as at 31 December 2019 (31.12.2018: HUF 688 million).

31.3. Reconciliation of effective tax rate

The table below presents quantitative reconciliation of income tax calculated based on accounting profit and the income tax recognised in profit or loss for the year, as well as the applicable tax rate (9% corporate tax, 2% local business tax, 0.3% innovation contribution) and the average effective tax rate.

Table 31.3.1 - Reconciliation of effective tax rate

(HUF million)	2019		2018	
	%	**Amount**	**%**	**Amount**
Profit before tax		8,389		8,412
Tax calculated using the Company's domestic tax rate	-9.00%	-755	-9.00%	-757
Local tax and innovation contribution	-11.94%	-1,002	-6.46%	-543
Tax effect of permanent differences	-0.47%	40	0.01%	1
Transfer of tax difference due to transition	-52.70%	-398	0.00%	0
Effect of different tax bases	0.00%	0	0.00%	0
Adjustments for prior years	0.00%	0	0.00%	0
Other	8.70%	730	-2.33%	-197
Total income tax	**-65.41%**	**-1,385**	**-17.78%**	**-1,496**

31.4. Movement in deferred tax balances

The Board of Directors of the Company decided that taking advantage of the option provided for by laws the Company shall use any expenses arising because of the tax difference due to transition in 3 equal instalments in the tax base of the tax year of the transition and of the 2 following tax years. The Company could not use its deferred tax credits in the tax year of the transition and the next tax year; these are expected to be used in 2020. Primarily due to these circumstances, the net balance of deferred tax liabilities decreased by HUF 522 million.

Table 31.4.1 - Movement in deferred tax balances

(HUF million)	Net balance at 01.01.2019	Impact of adopting IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2019		
					Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	-2	0	-29	0	-31	0	-31
Securities	-5	0	5	0	0	3	-3
Loan transaction cost	-114	0	82	0	-32	51	-83
Deposit transaction cost	-293	0	821	0	528	507	21
Allowance for expected credit losses	1	0	-2	0	-1	-1	0
Settlement reserve	-688	0	0	0	-688	0	-688
Other provisions	225	0	-270	0	-45	0	-45
Other	18	0	-84	0	-66	6	-72
Tax assets (+) / Tax liabilities (-)	**-858**	**0**	**523**	**0**	**-335**	**566**	**-901**

(HUF million)	Net balance at 01.01.2018	Impact of adopting IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2018		
					Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	6	0	-9	0	-3	0	-3
Securities	-1,925	1,938	-18	0	-5	2	-7
Loan transaction cost	-170	0	56	0	-114	34	-148
Deposit transaction cost	-433	0	140	0	-293	338	-631
Allowance for expected credit losses	0	93	-92	0	1	0	1
Settlement reserve	-688	0	0	0	-688	0	-688
Other provisions	132	0	94	0	226	0	226
Other	34	0	-17	0	17	3	14
Tax assets (+) / Tax liabilities (-)	**-3,044**	**2,031**	**154**	**0**	**-859**	**377**	**-1,236**

32. Other disclosures

32.1. Leases

The Company acting as a lessee

As a lessee, the Company has office lease transactions. The property leased by the Company under a lease contract in Budapest is used as its registered office and customer service office. The contracts contain no restrictions, purchase options or escalation clauses.

The accounting policy on leases is included in Note 7.12.

Table 32.1.1 - Carrying amount of property, plant and equipment and right-of-use assets

(HUF million)	2019
Property, plant and equipment owned	3,311
Right-of-use assets, except for investment property	5,819
Total	**9,130**

Table 32.1.2 - Changes to right-of-use assets

(HUF million)	Property
Balance at 1 January 2019	48
Additions	6,611
Other decrease	-254
Depreciation charge for the year	-586
Balance at 31 December 2019	***5,819***

See Table 34.2.3 for a maturity analysis of lease liabilities.

Table 32.1.4 - Fixed and variable lease payments

(HUF million)	31.12.2019		
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	15	0	15
Contracts containing both fixed and variable lease payments	0	0	0
Contracts containing only variable lease payments	0	425	425
Total	**15**	**425**	**440**

A 1% growth in the consumer price index would increase the amount of variable lease payments by 1%.

Table 32.1.5 - Disclosures related to the statement of profit or loss and the statement of cash flows

(HUF million)	2019
Interest on lease liabilities	-186
Variable lease payments not included in the measurement of lease liabilities	-136
Income from sub-leasing right-of-use assets	99
Expenses relating to short-term leases	-103
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	0
Total cash outflow for leases	-440

The Company presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other financial liabilities' in its statement of financial position.

After the commencement date, the Company recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Income expenses'. Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs are recognised in 'Material-type expenses'. The Company recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Company acting as a lessor

The Company sub-leases offices leased by it, partly to subsidiaries under operating lease contracts, partly to an external third party under a finance lease contract.

Table 32.1.6 - Lease income as a lessor

(HUF million)	2019	2018
Finance lease		
Profit/Loss from sales	12	0
Finance income on the net investment in the lease	5	0
Income related to variable lease payments not included in the measurement of the net investment in the lease	0	0
Operating lease		
Lease income	99	0

Table 32.1.7 - Lessor operating leases

(HUF million)	2019
Less than one year	166
One to two years	166
Two to three years	166
Three to four years	166
Four to five years	166
More than five years	0
Total undiscounted lease payments	**830**

Table 32.2.1 - Lessor finance leases

(HUF million)	2019
Less than one year	30
One to two years	31
Two to three years	30
Three to four years	28
Four to five years	28
More than five years	117
Total undiscounted lease payments receivable	**264**
Unearned finance income	**33**
Net investment in the lease	**231**

Related party disclosures

Balances of business transactions with related companies

In the financial statements the Company defines related parties as follows:

A person or a close member of that person's family is related to the Company if that person has control or joint control, or has significant influence over the Company, or is a member of the key management personnel of the Company or of a parent of the Company.

An entity is related to the Company if any of the following conditions applies:

- The entity and the Company are members of the same group;
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- The entity is controlled or jointly controlled by a person identified above;
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Table 32.2.1 - Balances with related parties

(HUF million)				31.12.2019
	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties
Assets				
Receivables from customers	0	0	2	19
Other financial receivables	0	24	0	0
Other assets	0	12	0	0
Property	0	752	0	0
Liabilities				
Liabilities to customers	0	0	21	20
Other financial liabilities	0	608	0	0
Provisions	0	0	164	0
Other liabilities	0	133	38	0

(HUF million)				31.12.2018
	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties
Assets				
Receivables from customers	0	0	3	25
Other financial receivables	0	12	0	0
Other assets	0	12	0	0
Liabilities				
Liabilities to customers	0	0	12	17
Other financial liabilities	4	324	0	0
Other liabilities	0	149	0	0

Table 32.2.2 - Related party transactions

(HUF million)	31.12.2019			
	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income				
Interest income	0	114	0	1
Interest expense	0	0	0	0
Fee and commission income	0	0	0	0
Fee and commission expense	0	-7,053	0	0
Other operating income	0	406	0	0
Other operating expenses	0	-85	-1	0
Personnel expenses	0	0	-426	0
Material-type expenses	-12	-197	0	0
Dividend				
Dividends paid	1,281	0	0	0
Dividends received	0	0	0	0

(HUF million)	31.12.2018			
	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income				
Interest income	0	0	0	1
Interest expense			0	0
Fee and commission income			0	0
Fee and commission expense	0	-16,590	0	0
Other operating income	0	285	0	0
Other operating expenses				
Personnel expenses	0	-209	-396	0
Material-type expenses	-11	-49	0	0
Dividend				
Dividends paid	1,281	0	0	0
Dividends received	0	0	0	0

Transactions with key management personnel

Key management personnel are those who – directly or indirectly – have the authorisation and responsibility to plan, direct and control the Company's activity.

The members of the Company's and the parent company's Supervisory Board and Board of Directors are considered key management personnel.

Loan receivables from key management personnel amounted to HUF 21 million as at 31.12.2019 (31.12.2018: HUF 28 million). The transaction value upon granting of loans granted was HUF 24 million (2018: HUF 29 million).

Liabilities to customers vis-á-vis key management personnel amounted to HUF 40 million as at 31.12.2019 (31.12.2018: HUF 29 million).

The amount of impairment booked in FY 2018 and FY 2019 on balances with key management personnel and their close family members was less than HUF 1 million in both years.

Remuneration of key management personnel

The table below presents remuneration of key management personnel:

Table 32.2.3 - Remuneration of key management personnel

(HUF million)	2019	2018
Short-term employee benefits	322	309
Other long-term benefits	104	87
Total	**426**	**396**

Remuneration of key management personnel includes their wages, in-kind benefits and related taxes.

Table 32.2.4 - Remuneration of the members of the Board of Directors and the Supervisory Board

(HUF million)	2019	2018
Members of the BoD	417	387
Supervisory Board members	9	9
Total	**426**	**396**

32.2. Off-balance sheet items

Legal disputes

Up to the reporting date various claims were reported against the Company and various legal proceedings were in progress which belong to the ordinary course of business based on their nature.

In the Company's opinion, the claims against it and the litigated receivables do not affect materially its financial position, future results of operations or cash flows, although the outcome of claims and litigated receivables cannot be guaranteed. Nonetheless, the amount of provision recognised owing to legal disputes totalled HUF 5 million as of both 31 December 2019 and 31 December 2018. (See Note 19.1).

Loan commitment

The primary goal of these instruments is for the Company to make funds available to its customers as required.

The Company makes loan commitments for the undrawn parts of authorisable loan facilities. With regard to the credit risk of loan commitments the Company is potentially exposed to a risk of loss equal to the entire amount of the undrawn commitment. Nonetheless, the probable amount of the loss is lower than the entire amount of the undrawn commitment facility since most loan commitments are subject to customers meeting certain creditworthiness requirements.

Similar credit risk monitoring and lending rules apply for undrawn loan commitments as for lending. According to the Company management, the market risk connected to undrawn loan commitments is minimal.

Contingent assets

As at 31 December 2019 the Company has HUF 155 million (31.12.2018: HUF 150 million) contingent litigated assets.

32.3. Subsequent events

Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These can be adjusting events (providing evidence of conditions that existed at the end of the reporting period) and non-adjusting events (events occurring after the end of the reporting period).

When compiling its financial statements the Company took into account all adjusting events after the reporting period.

As described in Note 21.3, the dividend approved by the Company's general meeting is a non-adjusting subsequent event.

Further to the above there were no business events after the reporting date that would influence the true and fair view presented about the Company.

32.4. IT systems

The following IT systems support the Company's financial/accounting/treasury processes:

- Moonsol account management system,
- CODA general ledger application,
- Application supporting Érték sales processes,
- Clavis securities system,
- funIzsr GIRO management,
- SPECTRA electronic banking administration,
- Abacus working hours and payroll system,
- eBankár CRM system/client master.

The applications include systems developed by the Company itself and others coded by external partners.

The Company relies on both administrative and technical controls to ensure its IT security. Access to the entire IT system is only permitted via a pre-defined access management process.

For the purposes of enhancing availability, the Company operates test systems and only allows programme developments and modifications to go live in an operational setting in a strictly regulated manner and after appropriate testing.

The Company uses a central data backup system to prevent data loss; the archived backups are stored in physically separate and remote data centres, and recovery tests are employed to ensure the integrity of the saved data.

The Company has Business Continuity Planning (BCP) in place for all its business-critical systems and processes, which is regularly tested in coordination with security management.

33. Categories of financial instruments

The Company records its financial instruments in the amortised cost category.

34. Management of financial risk

The Company is exposed to the following main risks derived from financial instruments:

- credit risk
- liquidity risk
- market risk (including currency and interest rate risk).

This Note presents information about the Company's exposure to the above risks, the Company's objectives, policies and processes for measuring and managing risks.

34.1. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. For the Company, it essentially arises in the case of loans and advances to customers and other banks and partners as well as the investment securities held by the Company.

a) Credit risk management

The Company is a credit institution specialised in lending with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Company's Board of Directors is committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. The Company shapes its risk assumption, risk management and control procedures such that they support its secure operations.

The Company ensures that it elaborates, implements and executes the right standard of risk management procedure by engaging an independent risk management organisation.

The Company's procedure for assuming risks consists of identifying, measuring, managing and strictly monitoring risks. In terms of measurement methods the Company strives to select the best methodology that properly reflects its risk profile, and is the best tool for estimating potential losses from risks. Prior to introducing new products and services and for all material risk types the Company assesses the risks of the product and defines the risk management methods, including the monitoring activity. The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Company's risk profile.

Credit risks are managed at the Strategic Risk Management Directorate. Strategic Risk Management is responsible for planning and measuring credit risks and risk costs. This task is carried out via the following departments.

- Operative Risk Management ensures the risk management data infrastructure, the central valuation of collateral and regulations. It plans, updates, backtests and develops the debtor rating system, risk costs as well as internal and external risk reports.
- The Work Out department monitors and collects loan receivables that are in arrears. Cash flows from the transactions are generated via individual rescheduling agreements, or, failing all else, then by claiming collateral.
- The Special Decisions department assesses the loan transactions referred for an individual decision by the debtor rating system based on a submission from Back Office, and may only approve such transactions if this is supported by the submitting party.
- The Product Risk department supports the development of new-risk products, the performance analysis of existing product portfolios as well as lending processes.

Alongside the Strategic Risk Management Directorate, the Compliance Directorate as well as the Security Management Directorate also play key roles in shaping risk awareness and operating risk management processes.

The Risk Board convenes every month and checks the work of risk management areas based on the risk management strategy; it makes decisions on submissions regarding risk management issues as well as on ensuring the personnel and material conditions required to implement the Strategy.

Alongside coordination from the Strategic Risk Management Directorate, the general rules and conditions for undertaking credit risks in line with the corporate strategy are developed in cooperation with the areas affected – Controlling, Legal, Compliance, Market Management, Back Office, Internal Audit.

The Audit and Risk Management Committee operates as part of the Supervisory Board. It makes proposals to the Supervisory Board with due consideration of observations from financial reporting and the audit, risk management, internal audit and compliance. It convenes before the meetings of the Supervisory Board. In terms of its meetings and decision-making processes it follows the rules applicable for the Supervisory Board, and a majority vote is required from the Committee members for each decision.

Underwriting

Credit risk management is carried out by several areas within the organisation. Individual underwriting decisions related to the granting of loans are taken by the Decisions group of the Risk Management department in accordance with the rules set forth in the Underwriting policy. For loan placements in excess of the amount recorded in the Competence Policy, and in the other cases defined in the Censor Committee Policy, risk management adopts its decisions in cooperation with the Censor Committee.

The ongoing management of credit risks at portfolio level is conducted by the Operative Risk Management department, and at operative level by the Work Out department. They are responsible for ongoing monitoring, proposals for modifying the loan assessment system and policies, initiating sanctions against customers in arrears where necessary, cancellation recommendations, management of cancelled contracts and outsourcing it to law offices to claim receivables through legal channels. The Work Out department also handles the examinations of cases suspected of fraud, and makes recommendations on introducing procedures to prevent fraud.

The product risk management function was set up within the Strategic Risk Management Directorate, which provides risk support for the development of new loan products as well as measuring the parameters and associated risks of existing products by applying a risk-return concept.

Limit system

The Company uses a limit system to restrict the assumption of credit risks.

The main principle applied when determining credit risk limits is compliance with the provisions of the Home Savings and Loans Act, furthermore, that the limits must always relate to the quality of the economic/financial situation, creditworthiness and solvency of those subject to the limits.

The Company introduced a limit system for business loans from 2011. The upper – statutory – limit of the system is that 90% of the free assets may be used to grant bridging loans (including the immediate bridging loans that used to be distinguished by law). The Company introduced voluntary limits for immediate bridging loans (AÁK) limits with regard to risky portfolios.

In the segments where the expected risk of placed loans is higher, or unknown, the Company uses limits to restrict the volume that may be placed. The limits are defined in connection with the risks that can still be assumed, while changing them depends on the recovery of the portfolio.

Different policies define the terms and conditions for product limits on housing loans as well as bridging and immediate bridging loans. In the case of housing loans the product limit only changes in the event of a modified tariff or the introduction of a new tariff, while for bridging loans the limit applied is in line with Section 15 (4) of the Home Savings and Loans Act, which is modified when the Home Savings and Loans Act is amended.

Reporting

Operative Risk Management is responsible for constantly monitoring and analysing credit risks.

The head of Strategic Risk Management, or his/her representative, reports on the quality of the portfolio every month at the Risk Board meetings.

One standing item on the agendas of the Supervisory Board meetings is the report on the size, development and quality of the loan portfolio. Determining the basic general principles of the business policy (including guidelines for lending activity) is a task for the General Meeting.

Monthly and quarterly summaries and analyses are prepared on the quality of the loan portfolio. These are prepared by staff at the Risk Management department. The analyses are prepared per type of loan, highlighting certain loan conditions based on the given risk level, and look at the impact of certain parameters on quality. The examined parameters were previously defined on the basis of professional consultations. The results of the analyses are monitored and evaluated on a monthly basis.

In addition to the above, Process Management prepares a monthly Loan Cockpit, which is regularly reviewed and evaluated by the areas of process management, risk management and market management, making recommendations to the Board of Directors regarding the implementation of further actions where applicable.

Monitoring

The Risk Board is responsible for the ongoing supervision of the Company's lending activity; the ongoing supervision of the collection and workout activity; the risk supervision of the loan portfolio, for requesting reports on the operating risks arising at the Company, and for accepting any measures. In addition, the Risk Board ensures an optimal flow of information and communication between the organisational units, detects and discusses the problems arising during the Company's operations; it makes decisions to handle the problems or puts forward proposals.

The Risk Board has no decision-making rights regarding loan transactions.

Main duties of the Risk Board:

- design and approve the risk management strategy based on the risk appetite statement accepted by Board of Directors;
- implement the risk control function;
- risk management monitoring of the loan portfolio;
- monitoring of operational risks;
- monitoring of collection and workout activity;
- definition, implementation and monitoring of risk limits for the loan portfolio in line with the risk strategy;
- collaboration regarding the performance of ICAAP-related tasks, particularly with regard to loan portfolio questions, ensuring the necessary input, reports, recommendations and observations;
- providing information to the Board of Directors on a regular basis on decisions adopted by the Risk Board.

b) Credit quality analysis

The following table provides information on the credit quality of financial assets measured at amortised cost. The amounts presented in the table are the gross carrying amounts of the financial assets (which equal the maximum credit risk exposure), unless otherwise indicated. For loan commitments the amounts presented in the table are the amounts granted or issued.

The definitions for 12-month expected credit loss, lifetime expected credit loss and credit-impaired financial assets are contained in Note 7.3 a).

Table 34.1.1 - Classification by credit quality category

(HUF million)				31.12.2019
	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	Total
Receivables from customers at amortised cost				
Arrears of 0 day	*422,613*	*21,291*	*0*	***443,904***
Arrears for no more than 1 month	*2,799*	*611*	*0*	***3,410***
Arrears for no more than 2 months	*0*	*1,080*	*0*	***1,080***
Arrears for no more than 3 months (not default)	*0*	*21*	*0*	***21***
More than 3 months, not significant	*0*	*3*	*0*	***3***
More than 90 days but not more than 3 months, significant	*0*	*0*	*1,107*	***1,107***
More than 3 months, significant	*0*	*0*	*1,259*	***1,259***
Restructured	*0*	*0*	*2,727*	***2,727***
Objective evidence	*0*	*0*	*271*	***271***
Cancelled	*0*	*0*	*1,395*	***1,395***
Persistence	*0*	*0*	*1,581*	***1,581***
Watch list due to associated contract	*0*	*0*	*1,144*	***1,144***
Total gross value	**425,412**	**23,006**	**9,484**	457,902
Impairment allowance	*-755*	*-139*	*-3,832*	***-4,726***
Total net carrying amount	**424,657**	**22,867**	**5,652**	453,176
Cash and cash equivalents at amortised cost				
BB	*3,000*	*0*	*0*	***3,000***
BBB	*53,353*	*0*	*0*	***53,353***
Total gross value	**56,353**	**0**	**0**	56,353
Impairment allowance	*0*	*0*	*0*	***0***
Total net carrying amount	**56,353**	**0**	**0**	56,353
Securities that are debt instruments, at amortised cost				
BBB	*109,513*	*0*	*0*	***109,513***
Total gross value	**109,513**	**0**	**0**	109,513
Impairment allowance	*-101*	*0*	*0*	***-101***
Total net carrying amount	**109,412**	**0**	**0**	109,412
Other financial receivables - lease receivables				
Number of days in default: 0-30	*231*	*0*	*0*	***231***
Number of days in default: 31-90	*0*	*0*	*0*	***0***
Number of days in default: 91-	*0*	*0*	*0*	***0***
Total gross value	**231**	**0**	**0**	231
Impairment allowance	*-9*	*0*	*0*	***-9***
Net carrying amount	**222**	**0**	**0**	222
Other financial receivables - other				
Number of days in default: 0-30	*0*	*295*	*0*	***295***
Number of days in default: 31-90	*0*	*0*	*0*	***0***
Number of days in default: 91-	*0*	*30*	*0*	***30***
Total gross value	**0**	**325**	**0**	325
Impairment allowance	*0*	*-14*	*0*	***-14***
Net carrying amount	**0**	**311**	**0**	311
Loan commitments				
Arrears of 0 day	*11,352*	*0*	*0*	***11,352***
Arrears for no more than 1 month	*149*	*0*	*0*	***149***
Arrears for no more than 2 months	*80*	*0*	*0*	***80***
Arrears for no more than 3 months (not default)	*21*	*0*	*0*	***21***
More than 3 months, not significant	*10*	*0*	*0*	***10***
More than 3 months, significant	*0*	*0*	*49*	***49***
Watch list due to associated contract	*0*	*0*	*27*	***27***
Total loan commitments	**11,612**	**0**	**76**	11,688
Impairment allowance (provision)	**-101**	**0**	**-1**	-102

(HUF million)	31.12.2018			
	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	Total
Receivables from customers at amortised cost				
Arrears of 0 day	376,024	22,652	0	**398,676**
Arrears for no more than 1 months	3,645	1,778	0	**5,423**
Arrears for no more than 2 months	0	791	0	**791**
Arrears for no more than 3 months (not default)	0	26	0	**26**
More than 3 months, not significant	0	5	0	**5**
More than 90 days but not more than 3 months, significant	0	0	870	**870**
More than 3 months, significant	0	0	1,312	**1,312**
Restructured	0	0	2,662	**2,662**
Objective evidence	0	0	64	**64**
Cancelled	0	0	1,907	**1,907**
Persistence	0	0	969	**969**
Watch list due to associated contract	0	0	1,018	**1,018**
Total gross value	**379,669**	**25,252**	**8,802**	**413,723**
Impairment allowance	-814	-237	-3,583	**-4,634**
Total net carrying amount	**378,855**	**25,015**	**5,219**	**409,089**
Cash and cash equivalents at amortised cost				
BB	2	0	0	**2**
BBB-	11,417	0	0	**11,417**
Total gross value	**11,419**	**0**	**0**	**11,419**
Impairment allowance	0	0	0	**0**
Total net carrying amount	**11,419**	**0**	**0**	**11,419**
Securities that are debt instruments, at amortised cost				
BBB-	121,522	0	0	**121,522**
Total gross value	**121,522**	**0**	**0**	**121,522**
Impairment allowance	-243	0	0	**-243**
Total net carrying amount	**121,279**	**0**	**0**	**121,279**
Other financial receivables				
Number of days in default: 0-30	0	262	0	**262**
Number of days in default: 31-90	0	0	0	**0**
Number of days in default: 91-	0	17	0	**17**
Total gross value	**0**	**279**	**0**	**279**
Impairment allowance	0	-12	0	**-12**
Net carrying amount	**0**	**267**	**0**	**267**
Loan commitments				
Arrears of 0 day	6,364	9	0	**6,373**
Arrears for no more than 1 months	0	0	0	**0**
Arrears for no more than 2 months	18	0	0	**18**
Arrears for no more than 3 months (not default)	56	0	0	**56**
More than 3 months, not significant	0	0	0	**0**
More than 3 months, significant	0	0	62	**62**
Watch list due to associated contract	0	0	33	**33**
Total loan commitments	**6,438**	**9**	**95**	**6,542**
Impairment allowance (provision)	**-73**	**-1**	**-1**	**-75**

Cash and cash equivalents

The Company's cash and cash equivalents as of 31 December 2019 totalled HUF 56,313 million (31.12.2018: HUF 11,419 million). Cash and cash equivalents comprise amounts deposited at central banks and at credit institution partners with at least a rating of between AAA and BB based on the ratings from the three most well-known ratings agencies (Fitch, Moody's, S&P).

c) Collateral and other credit enhancements

In relation to certain credit risk exposures the Company accepts collateral and other credit enhancements. The following table presents the basic collateral accepted in relation to various financial assets.

Table 34.1.2 - Collateral

(HUF million)	Ratio of exposures subject to collateral requirements (%)		Basic type of collateral
	31.12.2019	31.12.2018	
Receivables from customers - Retail customers			
Immediate bridging loans	99.98%	99.83%	property collateral
Bridging loans	97.53%	96.63%	property collateral
Housing loans	86.17%	84.57%	property collateral
Receivables from customers - Multi-occupational buildings			
Immediate bridging loans	0.30%	0.46%	property collateral
Bridging loans	0.00%	0.00%	property collateral
Housing loans	0.16%	0.26%	property collateral

Retail mortgage lending

The following tables group the credit risk exposure of mortgage loans and advances to retail customers based on the loan-to-value (LTV) ratio. The loan-to-value ratio shows the gross value of the loan (for loan commitments, the amount of the commitment) relative to the value of the collateral. The collateral value of mortgage loans associated with residential properties is based on the collateral value valid at the time of the loan disbursement, which is remeasured in accordance with Basel requirements.

Table 34.1.3 - Loan-to-value ratio of mortgage loans

(HUF million)	31.12.2019	31.12.2018
Less than 50%	199,899	173,379
51-70%	119,673	112,297
71-90%	102,532	97,837
91-100%	9,906	9,151
Over 100%	25,768	20,825
Loan receivables total gross portfolio	**457,778**	**413,489**

Table 34.1.4 - Loan-to-value ratio of credit-impaired loans

(HUF million)	31.12.2019	31.12.2018
Less than 50%	3,567	3,283
51-70%	3,065	2,978
Over 70%	2,852	2,541
Impaired loan receivables total gross portfolio	**9,484**	**8,802**

Table 34.1.5 - Loan-to-value ratio of mortgage loan commitments

(HUF million)	31.12.2019	31.12.2018
Less than 50%	4,774	2,089
51-70%	2,767	1,394
71-90%	3,467	2,007
91-100%	190	297
Over 100%	490	755
Total	**11,688**	**6,542**

Other collateral and credit enhancements

In the event the debtor defaults on payment, the purpose of the collateral is for the Company to use it to recover all its receivables from the debtor – costs, transaction and default interest as well as the principal.

Only the following real collateral (and combinations thereof) may be accepted as security for bridging and immediate bridging loans granted by the Company: mortgage right, general mortgage, property insurance securing the collateral property, security deposit, assignment, risk life insurance. Non-real collateral may include the following: surety, lien on income from common charges, lien on income from rents, debt recognition, immediate collection (immediate debt collection).

In line with statutory requirements the Company appraises residential properties every three years, and non-residential properties every year. The prevailing portfolio is revised in stages, at least annually.

As of 31 December 2019 the Company had no financial instruments which had not been impaired on account of collateral.

d) Amounts arising from expected credit loss

Inputs, assumptions and methods used to estimate impairment

See Note 7.3 a) on accounting policies.

Significant increase in credit risk

To determine whether the risk of default of a financial instrument has risen significantly since initial recognition, the Company takes into account all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information and analysis based on the Company's historical experience, creditworthiness examinations and forward-looking information.

The objective of the assessment is for the Company to identify, whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; and
- the remaining lifetime probability of default as at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk rating grades

The Company classifies all exposures into credit risk rating grades based on experience of creditworthiness assessments and based on data predictive of the default risk. The credit risk rating grades are defined based on qualitative and quantitative factors that are indicative of the probability of default.

The Company differentiates between twelve credit risk rating grades.

Performing rating grades:

1. No arrears
2. Arrears for no more than 1 months

3. Arrears for no more than 2 months
4. Arrears for no more than 3 months
5. More than 3 months, not significant

Non-performing rating grades:

6. More than 90 days but not more than 3 months, significant
7. More than 3 months, significant
8. Restructured
9. Objective evidence
10. Cancelled
11. Persistence
12. Watch list due to associated contract

The *No arrears* grade includes contracts where there are no transactions in default. Arrears with both deposits and loans must be taken into account with regard to arrears.

The grade of *Arrears for no more than 1 month* includes contracts where there is a transaction in default and the number of days in default is greater than zero but no more than 31.

The grade of *Arrears for no more than 2 months* includes contracts where there is a transaction in default and the number of days in default is greater than 31 but no more than 62.

The grade of *Arrears for no more than 3 months* includes contracts where there is a transaction in default and the number of days in default is greater than 62 but no more than 92 (in the case of 91 and 92 days only the non-significant debts are included).

The *More than 3 months, not significant* grade contains the contracts where the number of days in default is greater than 92 but the arrears are not significant.

If the significant defaulted loan obligation for the transaction has persisted for more than 90 days, i.e. the arrears have prevailed for 91 or 92 days and qualify as significant, it falls into the *More than 90 days but not more than 3 months, significant* grade.

The contracts classified in the *More than 3 months, significant* grade have arrears for more than 92 days which are significant.

The *Restructured* grade lists the transaction contracts which were subject to distressed restructuring – in the form of a repayment agreement – and are in restructuring phase 1 or 2 at the time of the rating.

The *Objective evidence* grade contains contracts where there is objective evidence triggering a default.

The *Cancelled* grade contains contracts that have been cancelled.

The *Persistence* grade includes contracts which had significant debts of 90+ days or objective evidence triggering a default on at least one occasion during the last three ratings, yet which currently have no criteria triggering a default.

The Watch list due to associated contract grade includes contracts that fall under Stage 1 or Stage 2 in their own right, but have connections to Stage 3 contracts based on debtor groups.

Upon initial recognition, the Company classifies all exposures into one of the credit risk rating grades based on information available on the debtor. The exposures are constantly reviewed, which can mean that over time an exposure must be classified into a different credit risk rating grade. The reviews generally draw on the following data:

Defining the term structure of probability of default

Credit risk rating grades are the most important inputs for determining the probability of defaults (PD) for exposures. The Company collects performance and default information about its credit risk exposures analysed by product and customer type as well as by credit risk rating grade.

The Company applies statistical models to analyse the data collected as well as to estimate the lifetime expected PD of the exposures and what change is expected in them as time progresses.

This analysis includes the identification and calibration of the relationship between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of other factors (for example restructuring experience) on default risk. Key macro-economic factors for most exposures: GDP growth, benchmark interest rates and unemployment rate.

The purpose of estimating the PD parameter is to quantify the probability of default of a given transaction at the Company. The aim of the PD segmentation is to group the portfolio transactions into homogeneous risk groups (from a PD parameter perspective) based on legal type (non-natural persons / natural persons), product type (housing loan / immediate bridging loan / bridging loan), coverage (secured / unsecured) and loan conditions (for immediate bridging loans, 0 or 1 year). The Company determined its PD curves with the help of survival functions applied to the historical default rates of segments with the same risks (Weibull distributions).

Determining whether credit risk has risen substantially

In accordance with IFRS 9, transactions must be classified into 3 types, so-called “stages”.

- Stage 1: The transaction’s credit risk has not deteriorated significantly since its initial recognition. Calculation of 12-month expected loss is required.
- Stage 2: The transaction’s credit risk has deteriorated significantly since its initial recognition. Calculation of lifetime expected loss is required.
- Stage 3: One or more negative events have occurred that had an adverse impact on the transaction’s future expected cash flows (“credit-impaired”). The Company classifies defaulted transactions into Stage 3.

The change in credit risk is examined at transaction level.

The staging logic at the Company is based on the changes in the behavioural scores of the contracts. If a behavioural score deteriorates by 2 notches compared to the rating upon initial recognition, the transaction is transferred to Stage 2.

For stage classifications in the other direction (e.g. migration from Stage 2 to Stage 1) there are no special conditions (e.g. no separate trial period is applied), and so the movement between these stages is symmetrical.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 7.2 c).

When the terms of a financial assets are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contract terms.

The Company renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default.

The Company strives to elaborate payment relief options for its customers who want to pay but whose ability to pay has temporarily suffered a setback, bearing in mind the following guidelines:

- reaching an agreement which the debtor can meet in accordance with the terms and conditions in the agreement,

- the terms of the restructuring agreement are developed with the interests of the Creditor in mind too, alongside the ability of the borrowers to pay,
- restoring the debtor's ability to pay in the short term primarily, and if not then in the long term.

Alongside the above guidelines, the Company pays special attention to restoring retail mortgage loans that have fallen into default, based on MNB Recommendation 1/2016 (III.11).

For loan accounts in arrears and loan contracts earmarked for cancellation the Company examines the circumstances surrounding the debtor's ability to pay, and based on its own business policy it weighs up whether it is possible to apply bridging solutions should the debtor default on payment. When making this decision the receivables from the debtor are reviewed both separately and collectively.

The revised terms generally include extending the maturity and changing the timing of interest payments.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/non-performing. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/non-performing or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month expected credit loss.

Definition of default

A customer shall be considered to be in default if at least one of the following events occurs:

- the significant defaulted loan obligation for the transaction has persisted for more than 90 days, or
- the transaction contract has been cancelled,
- the transaction contract is subject to distressed restructuring – in the form of a repayment agreement – and is in restructuring stage 1 or 2 at the time of the rating,
- there is objective evidence triggering a default for the contract,
- persistent default (contracts for which the default criterion was applicable in the last 3 months).

The Company applies the default definition at transaction level.

The amounts in default arising in connection with the loan and the deposit account associated with the loan account (in the case of bridging loans) are recognised as defaulted items on a transaction basis.

When examining the default criterion the Company examines the joint fulfilment of the following two conditions:

- the degree of the default can be considered critical if it has prevailed for more than 90 days at the time of the rating,

- the amount of the default can be considered critical if the amount exceeds one of the following three threshold values:

Absolute threshold	Relative threshold
• HUF value equivalent to EUR 100 calculated using MNB exchange rate	• 2% of the total contractual liability of the transaction, or • one monthly repayment instalment

The time of the default is the due date of the oldest outstanding transaction from those past due by more than 90 days (if the overall default is significant).

If a default is cured, the Company applies a 3-month curing period based on which the transaction is still treated as being in default for a further three months after the default is eliminated. For restructured transactions the Company does not apply the 3-month curing period.

For a transaction in default because of a previous significant late payment in excess of 90 days, it is considered cured if neither the default criterion above nor any other default criterion applies, and the three-month persistence period has lapsed.

For restructured loans the default criterion is monitored by tracking the contracts entering the repayment agreement category. The monitoring of contracts in default on account of restructuring can be split into two parts:

- monitoring of contracts in stage 1: the loans which have a repayment agreement in place at the time of the rating,
- monitoring of contracts in stage 2: the loans currently in their first, 1-year trial period.

Curing is subject to the contracts not being in default during the afore-mentioned stage 2. If this condition is breached, stage 2 commences with a 1-year curing period again after the default has been eliminated. Furthermore, curing is also only possible if, in addition to the default criterion above, no other default criterion applies to the transaction either.

Following a 1-year curing period, the transaction can be declared performing (stage 3). During the performing stage the transaction must be monitored for another two years (trial period). The "restructured" label can be removed from the transaction after two years if instalments deemed more than non-significant were made during half of the period, and none of the debtor group's transactions were in default at the end of the trial period.

The default events are identified at the end of the month and the default events are reported by Operative Risk Management.

Non-performing contracts for the Company are those in default in their own right as well as contracts classified in Stage 3 because of the related contract.

The inputs used to evaluate whether a financial instrument is non-performing and their importance may change over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

Forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an n instrument has increased significantly since its initial recognition and its measurement of expected credit loss.

The Company takes forward-looking information into account by adjusting certain impairment parameters. The Company collected the historical trends of various types of macro-economic indicator for modelling purposes, and arranged them in a standard database. The following variables were collected and examined during the modelling:

- GDP: Nominal GDP, seasonally adjusted figures thereof and various volume indices;
- Interest rates: 3-month BUBOR, 6-month BUBOR, MNB key interest rate, average interest rate of various products over different terms based on MNB statistics (e.g. average interest rates on short/long-term loans)
- Employment data: Employment number, unemployment number, employment / unemployment rate

The Company identified and documented the key credit risk and credit loss factors for each individual portfolio of financial instruments, and estimated the relationships between macro-economic variables and credit risk and credit losses by using analyses of historical data.

When assessing impairment the following information relating to the future was used:

- Change in Eurostat unemployment rate delayed by 3 periods
- Change in 3-month BUBOR interest rate (source: MNB) delayed by 4 periods
- Annual volume index of seasonally adjusted GDP (source: CSO) delayed by 1

Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the Company expects to be paid in full but later than when contractually due.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to the Company under the contract and he cash flows that the Company expects to receive.

Expected credit losses shall be discounted to the reporting date, using the effective interest rate determined at initial recognition or an approximation thereof. The discounting interest rate can be defined at transaction level for each possible date.

The key inputs into the measurement of expected credit loss are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are usually derived from internally developed statistical models and other historical data. These are adjusted to reflect forward-looking information as described above.

The gross exposure at default on a given date is defined according to the repayment schedule. In relation to the calculation of the EAD parameter, please note that the bridging and immediate bridging loans are due to mature at the end of the housing loan phase, thus the EAD parameter also amortises the existing exposure until the end of the housing loan phase. The EAD includes the value of any potential fees as well.

The products of the Company are not credit line products so there are no undrawn lines where the expected ratio of the drawdown would have to be quantified. Consequently, there is no need to model a CCF (Credit Conversion Factor) parameter.

In the case of transactions in default, the value of the EAD equals the gross IFRS exposure.

When measuring expected credit loss on a collective basis, the classification into measurement group is based on the oldest outstanding arrears/portion of arrears.

Applying a policy developed by the parent company, the Company uses external benchmark information to measure the credit loss expected from the securities portfolio. External benchmark information represents a significant input into measurement of expected credit loss in the case of the following portfolios.

Table 34.1.6 - External benchmark information

(HUF million)	**Exposure**	**External benchmark used**	
		PD	**LGD**
Hungarian State , MNB	154,862	0.23%	40.00%

Loss allowance

The following table shows reconciliation from the opening to the closing balance of loss allowance by class of financial instrument.

Table 34.1.7 - Movements in loss allowance (Loan receivables)

(HUF million)	31.12.2019				31.12.2018			
	12-month expected credit loss (Stage 1)	**Lifetime expected credit loss - not credit-impaired (Stage 2)**	**Lifetime expected credit loss - credit-impaired (Stage 3)**	**Total**	**12-month expected credit loss (Stage 1)**	**Lifetime expected credit loss - not credit-impaired (Stage 2)**	**Lifetime expected credit loss - credit-impaired (Stage 3)**	**Total**
Balance at 31 December of the previous year	814	237	3,583	**4,634**	564	277	2,206	**3,047**
Change due to IFRS 9	0	0	0	**0**	-53	-120	1,123	**950**
Reclassifications	1,529	-470	-1,059	**0**	1,295	-412	-883	**0**
Increase due to origination	206	0	0	**206**	194	0	0	**194**
Further amounts recognised	52	828	2,637	**3,517**	298	838	2,082	**3,218**
Release	-1,809	-433	-543	**-2,785**	-1,462	-329	-830	**-2,621**
Decrease due to derecognition	-43	-25	-965	**-1,033**	-24	-18	-281	**-323**
Other changes	5	2	180	**187**	2	1	166	**169**
Reclassification between individual and collective impairment	0	0	0	**0**	0	0	0	**0**
Balance at 31 December	**754**	**139**	**3,833**	**4,726**	**814**	**237**	**3,583**	**4,634**

Table 34.1.8 - Movements in loss allowance (further financial assets and provision for credit facilities)

(HUF million)	31.12.2019			
	12-month expected credit loss (Stage 1)	**Lifetime expected credit loss - not credit-impaired (Stage 2)**	**Lifetime expected credit loss (Stage 3)**	**Total**
Impairment of securities that are debt instruments				
Balance at 31 December of the previous year	**243**	**0**	**0**	**243**
Increase due to origination and purchase	*18*	*0*	*0*	***18***
Movement due to change in credit risk (net)	*0*	*0*	*0*	***0***
Other changes	*-160*	*0*	*0*	***-160***
Balance at 31 December	***101***	***0***	***0***	***101***
Impairment of other financial receivables				
Balance at 31 December of the previous year	**0**	**12**	**0**	**12**
Increase due to origination	*0*	*12*	*0*	***12***
Movement due to change in credit risk (net)	*0*	*1*	*0*	***1***
Other changes	*0*	*-2*	*0*	***-2***
Balance at 31 December	**0**	**23**	**0**	**23**
Impairment of cash and cash equivalents				
Balance at 31 December of the previous year	**0**	**0**	**0**	**0**
Increase due to origination	*0*	*0*	*0*	***0***
Movement due to change in credit risk (net)	*0*	*0*	*0*	***0***
Other changes	*0*	*0*	*0*	***0***
Balance at 31 December	**0**	**0**	**0**	**0**
Provision for credit losses				
Balance at 31 December of the previous year	**73**	**0**	**2**	**75**
Increase due to origination	*649*	*1*	*2*	***652***
Movement due to change in credit risk (net)	*-549*	*-70*	*-3*	***-622***
Decrease due to derecognition	*-3*	*0*	*0*	***-3***
Transfer between Stages	*-69*	*69*	*0*	***0***
Balance at 31 December	**101**	**0**	**1**	**102**

(HUF million)	31.12.2018			
	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	Total
Impairment of securities that are debt instruments				
Balance at 31 December of the previous year	**0**	**0**	**0**	**0**
Change due to IFRS 9	*227*	*0*	*0*	***227***
Increase due to origination and purchase	*135*	*0*	*0*	***135***
Movement due to change in credit risk (net)	*-1*	*0*	*0*	***-1***
Other changes	*-118*	*0*	*0*	***-118***
Balance at 31 December	**243**	**0**	**0**	**243**
Impairment of other financial receivables				
Balance at 31 December of the previous year	**0**	**7**	**0**	**7**
Change due to IFRS 9	*0*	*5*	*0*	***5***
Increase due to origination	*0*	*-2*	*0*	***-2***
Movement due to change in credit risk (net)	*0*	*-1*	*0*	***-1***
Other changes	*0*	*3*	*0*	***3***
Balance at 31 December	**0**	**12**	**0**	**12**
Impairment of cash and cash equivalents				
Balance at 31 December of the previous year	**0**	**0**	**0**	**0**
Change due to IFRS 9	*4*	*0*	*0*	***4***
Increase due to origination	*8*	*0*	*0*	***8***
Movement due to change in credit risk (net)	*-2*	*0*	*0*	***-2***
Other changes	*-10*	*0*	*0*	***-10***
Balance at 31 December	**0**	**0**	**0**	**0**
Provision for credit losses				
Balance at 31 December of the previous year	**0**	**0**	**0**	**0**
Change due to IFRS 9	*71*	*0*	*0*	***71***
Increase due to origination	*877*	*0*	*0*	***877***
Movement due to change in credit risk (net)	*-743*	*-122*	*-1*	***-866***
Decrease due to derecognition	*-7*	*0*	*0*	***-7***
Transfer between Stages	*-125*	*122*	*3*	***0***
Balance at 31 December	**73**	**0**	**2**	**75**

Credit-impaired financial assets

See Note 7.3 a) on accounting policies.

In the Company's internal credit rating system, credit-impaired loans and advances are classified into Stage 2 and Stage 3.

As at 31 December 2019 the Company had no financial assets that were written off during the period and that are still subject to enforcement activity. At the end of the previous financial year, the contractual amount outstanding on such assets amounted to HUF 18 million.

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Table 34.1.9 - Modified financial assets

(HUF million)	31.12.2019	31.12.2018
Financial assets modified during the year		
Amortised cost before modification	3,186	1,020
Net modification loss	-10	-18

Restructured loans

In light of economic aspects and the principle of proportionality, the Company applies all methods and means that are generally expected and are supported by the legal environment in order to manage overdue receivables. In the case of the overdue exposures, the primary goal is to help restore the debtors' solvency. An important tool for achieving this goal is to restructure receivables, which can be done prior to rating an exposure as being in default and even in the case of exposures that are already non-performing.

Restructured loans are loans that had to be restructured due to a deterioration in the debtor's financial position, for which the concessions made by the Company ensured contractual terms and conditions for the debtor which are more favourable than those provided at initial recognition, and which the Company would not otherwise have provided. The Company recognises these loans under restructured loans until maturity, early repayment or until write-off.

Due to the customer's financial problems or the deterioration in its solvency, the original contract generating the receivable is modified at the request of the customer or the Company, and the original contractual conditions, in particular but not only the conditions relevant for the payment liability, became more favourable for the customer.

Changes to the original contractual conditions:

- modification regarding lower interest rate and/or instalment payment, forgiving;
- rescheduling, extension of term;
- release of collateral;
- all other contract modifications which have been defined by the Company in the relevant policy.

Cancellation of contracts

If the last warning prior to cancellation was unsuccessful and the debtor (or any other obligor) either did not respond or was not willing to cooperate, the loan contract becomes cancellable.

Possible reasons for cancellation:

- Non-payment;
- Non-verification of housing purpose;

- Enforcement initiated on collateral property;
- Provision of false data during loan assessment (including entitlement to government grant) discovered after the granting of the loan;
- Breach of contract (e.g. mortgage not registered);
- Collateral withdrawal (e.g. large/complete decrease in the value of collateral property).

Past due but not impaired loans and investment securities

Past due but not impaired loans and securities are financial assets for which contractual interest rate or principal payments are late but, based on the Company's deliberations, no impairment has to be accounted for given the size of the available collateral and/or the status of the collection of the amounts provided by the Company.

e) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk form receivables from customers, loan commitments and securities is shown below:

Table 34.1.10 - Concentrations of credit risk

(HUF million)	**Gross value of loan receivables**	
	31.12.2019	**31.12.2018**
Gross value	**457,778**	**413,489**
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***9,091***	***7,469***
Mortgaged	19	23
Unsecured loans	9,072	7,446
Retail	***448,687***	***406,020***
Mortgaged	438,765	394,340
Unsecured loans	9,922	11,680
Total	**457,778**	**413,489**
Concentration by geographic location		
Bács-Kiskun	21,749	20,063
Baranya	11,871	14,787
Békés	11,802	8,717
Borsod-Abaúj-Zemplén	34,023	29,057
Budapest	82,091	77,521
Csongrád	22,857	20,075
Fejér	23,468	21,343
Győr-Moson-Sopron	26,754	23,533
Hajdú-Bihar	24,325	20,949
Heves	12,731	11,447
Jász-Nagykun-Szolnok	10,416	9,452
Komárom-Esztergom	18,194	15,513
Nógrád	5,725	5,514
Pest	60,043	53,169
Somogy	15,210	11,288
Szabolcs-Szatmár-Bereg	22,973	21,383
Tolna	11,531	9,238
Vas	5,100	6,815
Veszprém	26,016	22,873
Zala	10,899	10,752
Total	**457,778**	**413,489**

(HUF million)	Loan commitments	
	31.12.2019	31.12.2018
Amount committed	**11,688**	**6,542**
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***249***	***196***
Mortgaged	0	0
Unsecured loans	249	196
Retail	***11,439***	***6,346***
Mortgaged	11,195	6,221
Unsecured loans	244	125
Total	**11,688**	**6,542**

Carrying amount as at 31 December 2019 of securities that are debt instruments totalled HUF 109,412 million (31.12.2018: HUF 121,279 million), all vis-á-vis the public sector.

34.2. Liquidity risk

Liquidity risk is the current or expected risk affecting profitability and the capital situation that an institution will not be able to fulfil its due liabilities without significant losses.

a) Management of liquidity risk

The toolbox and rules for managing liquidity risk are included in the Company's liquidity policy. The internal regulations are based on the following basic pillars:

- The harmony between the business strategy and the liquidity strategy is ensured as the liquidity plan prepared for an appropriate period forms an integral part of the business plans.
- The liquidity management organisation is clearly regulated. In line with the appropriate recommendation of the central bank, the board members of the Company supervise liquidity management processes in a committee (ALCO) as well as through regular reporting and the controls built into business processes.
- The time horizons, inputs and outputs of liquidity planning are regulated.
- We have processes developed to review the fulfilment of liquidity plans and the evaluation of plans/actual data.
- We have a model for forecasting cash flows related to the customer portfolio. We pay attention to measuring/back-testing the model's parameters and regularly review the planning parameters in a way that is embedded in our planning process.
- The organisational units impacting on liquidity and the affected IT systems are identified, the related information flow is regulated.

For liquidity management we have the right indicators, including the regulatory liquidity ratios (LCR-Liquidity Coverage Ratio, NSFR – Net Stable Funding Ratio) and other liquidity risk reports, as well as all the internal ratios which are related to the course of business due to regulatory requirements or any other special reasons (required liquidity level pertaining to remuneration policy, liquidity available within 30 days, liquidity buffers).

The Company has an internal policy for the management of emergency liquidity situations.

According to its valid business strategy, the Company is a specialised risk-averse credit institution. Ensuring continuous liquidity is an especially important element of the strategy targeting prudent credit institution operations in all aspects. For all this it is crucial that the Company particularly bears in mind the impact on liquidity of strategic decisions related to the core business activity.

In practice, this can be realised if modelling expected changes to liquidity always forms an integral part of the business plans built around the individual strategic ideas. Modelling is performed jointly by the Controlling and Treasury Directorate of the Company.

The Company's operative Board members supervise the liquidity management processes, evaluate liquidity risks at both strategic and tactical level, under normal and stressed circumstances and in light of both financing and market risks, relying on the reports prepared by the responsible professional units (particularly Treasury and Controlling). This activity is performed in most detail by the Asset-Liability Committee (hereinafter referred to as: the "ALCO").

Apart from the report prepared for the ALCO meetings, the Board of Directors receives reports with even a greater frequency about the processes affecting liquidity (a weekly report received from Treasury) which supports the responsible control function.

The ALCO is the central organisational unit of annual, medium-term and long-term liquidity management, in addition to Treasury, and receives information on the following regularly:

- Medium-term (for the current year and the following year) cash flow forecast broken down by month, with a plan/actual analysis.
- Liquidity available within 30 days (net cash flows from normal banking activities + due investments + market value of liquidity buffers). The limit is defined by the ALCO.
- The bond portfolio's duration and modified duration indicator. The limit is defined by the ALCO.
- The bond portfolio's maturity structure (maturity concentration).
- The difference between the bond portfolio's market value and carrying amount. In the case of a liquidity emergency, detailed reporting is necessary to define the liquidity order.
- Controlling and business intelligence: A portfolio model is prepared monthly for liquidity planning, and it forecasts every cash movement related to customers on a monthly basis. The parameters relevant for individual customer behaviour can be modified from time to time, and the feedback from the liquidity plan/actual analysis can provide the basis for this.

The Treasury department is the central organisational unit for liquidity management, its tasks cover the following in respect of liquidity management:

- It prepares liquidity plans for various time horizons.
- It shapes the Company's investment strategy in line with the liquidity plans in both tactical (timing) terms and in the long run. It submits all this to the ALCO monthly, and executes the decisions made there.
- It keeps contact with partner units in all issues affecting liquidity management.
- The partner units capable of generating cash movements have a reporting obligation towards it, while there is a mutual responsibility to collect information in each case when Treasury, due to the requirements of this very policy, has to count on certain predictable cash movements.
- It supervises the most important accounting and record-keeping systems from a professional perspective. This means supervising the system updates and performing tests in the case of developments.

The Finance and Accounting directorate plays a role in short-term (mainly daily) liquidity management. It specifies the extent of daily payments for which it collects information from the partner units. It authorises payments in the individual cash payment systems and supervises the GIRO system from a payment-transaction perspective. Additionally, it manages the liquidity of the accounts other than the MNB current account, which are kept for specified payments, and participates in preparing the liquidity forecast for 30 days, which is generated on a daily basis.

The Company plans liquidity in a pre-defined order and regularly monitors the changes.

The most important goals of liquidity planning:

- Compliance with legal requirements.
- Analysis of the expected impacts of the business strategy goals (changes to customer portfolios, and consequently the change in liquidity positions), preparation of an action recommendation based on the results received, if necessary.
- Ensuring immediate and general solvency of the Company (tactical and strategic liquidity) under both normal and stressed circumstances.
- Continuous monitoring of financing and market risks.
- Meeting the central bank's mandatory reserve requirement.
- Maximisation of interest income alongside an optimal liquidity level, and the defining of limits so that the related risks are kept under appropriate control.
- Applying the principle of prudence, particularly in respect of market and financing risks.

Liquidity plan

Except for the emergency plans and stress tests, when preparing the liquidity plans the Company essentially focuses on managing the maturity liquidity risk, bearing in mind the requirements of MNB recommendation no. 12/2015 regarding liquidity buffers. During emergency scenarios and stress tests, the manageability of the "drawdown risk" under the given circumstances comes to the forefront. Owing to its operating characteristics, the Company is less exposed to structural liquidity risks.

Time horizons of the liquidity plan:

- Daily liquidity position calculation;
- Liquidity forecast for 30 days, broken down by day;
- Annual liquidity plan broken down by month, which is primarily designed to support the disbursement process;
- Strategic plan/medium-term plan, generally for an 8-year period;
- Emergency plans, stress tests.

Liquidity limits

The ALCO defines liquidity limits (buffer levels) that ensure the Company's liquidity even under extreme circumstances. The basic goal is for liquidity to remain problem-free for at least one month even if funds run out completely (strengthening of mistrust on interbank market, freezing of the bond market, etc.), particularly in respect of the monetary transactions of the first 5-10 working days. Consequently, the ALCO defines indicators that enable the above.

These can include, in particular:

- The minimal level of receivables from credit institutions and the central bank which become due within 10 working days under normal circumstances, but which can be cashed in immediately in a stress situation (portfolio of deposits and central bank bonds, if the latter form part of the current toolbox);
- Hungarian government bonds already in the books for 30 days, maturing within 1 year, or having a remaining term shorter than one year upon initial recognition;
- Additionally, securities defined as liquidity buffers: securities which comply with Section 49 of MNB recommendation no. 12/2005, where the ALCO satisfied itself of compliance and made the relevant decision;
- Minimum stock of securities that can be taken into account as collateral for central bank lending.

For calculating coverage, the Company uses medium-term cash flow forecasts broken down by month (showing the remaining period of the current year and the following year). Treasury prepares the cash flow forecast using the portfolio model data updated by Controlling on a monthly basis; the cash flow changes that can be deduced from the changes in the investment portfolio are built into the forecast.

If the Company identifies a negative balance based on the above calculation, the necessary measures will be discussed at the following ALCO meeting together with the approval of the action plan.

The processes relevant for managing liquidity risk are included in the Liquidity Policy, which is reviewed at least annually by the Company. The Liquidity Policy is approved by the Board of Directors.

Based on the Liquidity Policy, limits have to be set up to define the boundaries of liquidity management.

In order for the Company's liquidity management to operate within a fully secure framework, to work out appropriate protection to manage unforeseeable encumbrances from a liquidity perspective, and to avoid a liquidity emergency situation, the following limits have to be observed when closing the daily position.

- Treasury has to make sure that the MNB bank account balance approximates 0 every day, but it can never be negative.
- The amount of the 1-day deposit is at least HUF 100 million; deviating from this is only allowed if it does not jeopardise the daily position.

The ALCO makes the decision on the required level of liquid assets accessible in the short term (within 30 days); complying with the decision is a task for Treasury, and it has to report on the current status to the management during the ALCO meetings.

Continuous records shall be kept of the daily position.

According to its audit plan, Internal Audit performs detailed reviews on Treasury twice a year. A review of prudent behaviour regarding liquidity management (compliance with requirements, adequacy of processes, compliance with risk levels, etc.) forms part of these examinations.

b) Liquidity risk exposure

The main indicators applied for the management of liquidity risk include the nominal magnitude of liquidity accessible within 30 days and the liquidity ratio stressed on the side of customer payments, defined as follows:

Liquidity accessible within 30 days

Using the data in the liquidity plan broken down by month, the experiential distribution data and the factual information derived from the books, we prepare a liquidity plan every day that is available for 30 days. The sum of the free liquidity available by the end of the 30th day based on the planned course of business and the liquidity buffers must definitely reach the minimum level defined by the ALCO. Current value of the limit: HUF 15 billion.

Liquidity ratio stressed on the side of customer payments

(Income from capital market investments within 30 days + 50% of expected customer payments + liquidity buffer) / Payments expected within 30 days

Minimum required value: 12-month average, calculated from data valid on first working day of the months: 110%.

As of the reporting date and during the period, the indicators applied to manage liquidity risk were as follows:

Table 34.2.1 - Liquidity risk exposure - Liquidity accessible within 30 days

(HUF million)	31.12.2019	31.12.2018
At 1 January	44,386	44,535
At 31 December	75,168	44,386
Average in the period	47,837	44,857
Maximum in the period	75,168	58,757
Minimum in the period	29,038	31,377

Table 34.2.2 - Liquidity risk exposure - Stressed liquidity ratio

(%)	31.12.2019	31.12.2018
At 1 January	214.35%	193.87%
At 31 December	312.72%	214.35%
Average in the period	277.48%	220.46%
Maximum in the period	336.54%	295.67%
Minimum in the period	214.35%	157.60%

c) Maturity analysis for financial assets and financial liabilities

The following table sets out the remaining contractual cash flows of the Company's financial liabilities and financial assets:

Table 34.2.3 - Maturity analysis

(HUF million)							31.12.2019
	Carrying amount	Gross nominal inflow (+) and outflow (-)					
		Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to customers	562,415	**-576,208**	-9,990	-250,859	-83,721	-209,587	-22,051
Other financial liabilities	7,692	**-8,672**	-1,195	-87	-458	-3,424	-3,508
of which: Lease liabilities	6,544	**-7,524**	-47	-87	-458	-3,424	-3,508
Financial guarantee contracts issued	0	**0**	0	0	0	0	0
Unrecognised loan commitments	11,688	**-11,688**	-11,688	0	0	0	0
Total	**581,795**	**-596,568**	**-22,873**	**-250,946**	**-84,179**	**-213,011**	**-25,559**
Type of financial asset							
Cash and cash equivalents	56,353	**56,353**	56,353	0	0	0	0
Securities	109,412	**134,167**	0	1,000	19,583	57,971	55,613
Receivables from customers	453,176	**615,680**	4,966	14,472	52,233	247,793	296,216
Other financial receivables	533	**590**	59	5	25	117	384
of which: Lease receivables	231	**264**	2	5	23	117	117
Total	**619,474**	**806,790**	**61,378**	**15,477**	**71,841**	**305,881**	**352,213**

(HUF million)	31.12.2018						
	Carrying amount	Gross nominal inflow (+) and outflow (-)					
		Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to customers	487,128	**-502,220**	-8,173	-200,011	-84,750	-195,259	-14,027
Other financial liabilities	1,193	**-1,193**	-1,152	-24	-17	0	0
Unrecognised loan commitments	6,542	**-6,542**	-6,542	0	0	0	0
Total	**494,863**	**-509,955**	**-15,867**	**-200,035**	**-84,767**	**-195,259**	**-14,027**
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	11,419	**11,419**	11,419	0	0	0	0
Securities	121,279	**149,288**	0	2,052	34,708	48,076	64,452
Receivables from customers	409,089	**535,312**	4,599	14,533	49,299	210,280	256,601
Other financial receivables	267	**279**	15	2	0	3	259
Total	**542,054**	**696,298**	**16,033**	**16,587**	**84,007**	**258,359**	**321,312**

The values included in the tables above in the case of non-derivative financial liabilities and financial assets are the undiscounted cash flows, which include estimated interest payments, while in the case of off-balance sheet loan facilities, the values were assigned to the earliest possible contractual maturity.

As part of the management of liquidity risk arising from financial liabilities, the Company holds liquid assets (cash and cash equivalents, debt instruments issued by sovereigns) which can be readily sold to meet liquidity requirements.

The following table shows the part of the carrying amount of non-derivative financial assets and liabilities which will be recovered or settled more than 12 months after the reporting date.

Table 34.2.4 - Instruments recovered/settled after more than 12 months

(HUF million)	31.12.2019	31.12.2018
Financial assets		
Cash and cash equivalents	0	0
Securities	93,581	90,116
Receivables from customers	405,976	357,287
Other financial receivables	472	248
Financial liabilities		
Liabilities to customers	402,932	329,795
Other financial liabilities	6,112	0

d) Liquidity reserves

The following table sets out the components of the Company's liquidity reserves.

Table 34.2.5 - Liquidity reserves

(HUF million)	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances at central banks	45,532	45,532	11,153	11,153
Cash and balances at other banks	10,821	10,821	266	266
Other cash and cash equivalents	0	0	0	0
Unencumbered debt securities issued by the state	109,412	121,832	121,279	128,760
Undrawn credit lines granted by central banks	0	0	0	0
Other assets eligible for use as collateral with central banks	0	0	0	0
Total liquidity reserves	**165,765**	**178,185**	**132,698**	**140,179**

e) Assets offered as collateral and available to support future funding

The Company did not have significant refinancing transactions, either in the reporting period or in the comparative period.

34.3. Market risk

Market risk is the risk that the change in market prices such as interest rates, equity prices, foreign exchange rates and credit spreads (not related to changes in the obligor's/issuer's credit standing) will affect the Company's profit or loss and the value of the financial instruments included in its financial statements. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Company's solvency while optimising the return on risk.

Management of market risks

The Company does not have any trading book items.

The Company aims to apply a prudent investment policy. In line with the legal requirements, it primarily invests its assets in government securities and mortgage bonds. These are recognised in the banking book and managed according to the business model recorded in the accounting policies. In 2019 the Company only had government securities. The re-pricing interest risk affects the Company to a limited extent since it sells its deposits and loans with an interest rate fixed for the term, so the risk related to changes in the interest rate directly affects the securities investments. The base risk, yield curve risk and option risk do not materialise because of the special regulated nature of the Company and due to its product portfolio.

Foreign currency risk can arise in connection with FX trade liabilities. These liabilities can generally be planned well in advance. The Company's practice is that in the case of a favourable exchange rate, it buys the necessary foreign currency in advance and fixes it until maturity.

Exposure to market risks

The Company's banking book items may be exposed to interest rate risk and foreign currency risk.

The following table presents the carrying amount of the Company's banking book items by interest rate type:

Table 34.3.1 - Exposure to interest rate risk

(HUF million)	31.12.2019			31.12.2018		
	Fixed rate	**Floating rate**	**Non-interest-bearing**	**Fixed rate**	**Floating rate**	**Non-interest-bearing**
Cash and cash equivalents	56,353	0	0	11,419	0	0
Receivables from customers	453,176	0	0	409,089	0	0
Securities	109,412	0	0	121,279	0	0
Other financial receivables	222	0	311	0	0	267
Total financial assets	**619,163**	**0**	**311**	**541,787**	**0**	**267**
Liabilities to customers	562,415	0	0	487,128	0	0
Other financial liabilities	6,544	0	1,148	0	0	1,193
Total financial liabilities	**568,959**	**0**	**1,148**	**487,128**	**0**	**1,193**

It is clear from the table above that the Company's exposure to interest rate risk is not significant.

The following table shows the carrying amount of the Company's banking book items by currency:

Table 34.3.2 - Exposure to currency risk

(HUF million)				31.12.2019				31.12.2018
	EUR	**HUF**	**USD**	**Total**	**EUR**	**HUF**	**USD**	**Total**
Financial assets subject to foreign currency risk								
Cash and cash equivalents	258	56,095	0	**56,353**	198	11,220	***1***	**11,419**
Receivables from customers	0	453,176	0	**453,176**	0	409,089	***0***	**409,089**
Securities	0	109,412	0	**109,412**	0	121,279	***0***	**121,279**
Other financial receivables	469	64	0	**533**	259	8	***0***	**267**
Total	***727***	***618,747***	***0***	***619,474***	***457***	***541,596***	***1***	***542,054***
Financial liabilities subject to foreign currency risk								
Liabilities to customers	0	562,415	0	**562,415**	0	487,128	***0***	**487,128**
Other financial liabilities	5,541	2,151	0	**7,692**	0	1,193	***0***	**1,193**
Total	***5,541***	***564,566***	***0***	***570,107***	***0***	***488,321***	***0***	***488,321***
Net exposure to foreign currency risk	**-4,814**	**54,181**	**0**	**49,367**	**457**	**53,275**	**1**	**53,733**

In the period covered by these financial statements the following significant exchange rates prevailed (expressed in HUF):

Table 34.3.3 – Exchange rates

Currency	Average exchange rate		Spot exchange rate at the reporting date	
	2019	2018	31.12.2019	31.12.2018
1 EUR =	325.35	318.87	330.52	321.51
1 USD =	290.65	270.25	294.74	280.94

The Company's exposure to foreign currency risk is not significant.

34.4. Operational risk

Operational risk is the risk of a loss that affects the Company's profit or loss and regulatory capital due to inadequate internal processes and systems, external events, the inadequate performance of tasks by individuals, or due to violating or failing to comply with legal regulations, contracts or procedures set forth in internal policies.

The definition includes legal risks, but excludes strategic and/or reputation risks that jeopardise the Company's reputation.

The Company manages operational risks according to the standardised approach. This activity is directed by the Operational Risk Management department.

Primary tools for operational risk management: continuous collection of loss data, analysis of loss events, development of loss event scenarios, analysis of extreme (very unlikely but somewhat realistic) scenarios related to loss events, regular and one-off reporting service.

The system of checking questions also forms part of operational risk management, with the help of which the Company partly establishes the annual operational loss potential and partly monitors the quality of operational risk management within the individual organisational units.

Strategic goals of the operational risk management:

- improving the risk culture and risk sensitivity of the managers and staff,
- identifying the risks of the transaction arrangement processes and taking steps to avert them,
- preparing for minimising a potential loss,
- establishing the amount of damage derived from operations as precisely as possible and predicting this for the future.

The organisational structure of the Company ensures the continuous and regulated cooperation in the long run of all parties participating in managing and controlling operational risks. All of the Company's organisational units, departments and groups have operational risks, thus these can affect all staff and every individual employee can contribute to avoiding operational risks.

All employees of the Company have a duty to contribute (particularly through the quick and thorough reporting of loss events) to the identification, measurement and management of operational risks.

Together with Operative Risk Management, the managers must assign suitably qualified staff members responsible for operational risks (such staff known by the Hungarian abbreviation "MKF") at their individual organisational units. With questions regarding operational risks and Operational Risk Management, the employees of the given organisational unit can contact to the MKF directly. This way the MKF perform the tasks related to local operational risk controlling too.

Senior staff (directors, team managers) are responsible for managing operational risks within their organisational unit based on the provisions generally applicable for the team.

The Operational Risk Management department is the Company's central body for managing and controlling operational risks. Its main tasks and responsibilities are as follows:

- It prepares the reports on operational risks and sends them to the recipients by the given deadlines.
- The Operative Risk Management department acts as the central contact point and professional advisor for the Company's organisational units in issues affecting operational risks.
- If governance limits and restrictions are breached, it initiates measures (in consultation with Internal Audit).
- The Operational Risk Management department commands the necessary initiative, methodological and system competence and is responsible for the controlling of operational risks accordingly.
- In accordance with the central and local division of tasks, Operational Risk Management is responsible for the controlling process of operational risks.
- Risk Controlling is responsible for the aggregate recording, documentation and rating of operational risks.
- Carrying out training tasks related to operational risks.

The Company's Board of Directors defines the basic conditions for the management of operational risks. At the highest level it is the Board of Directors that is responsible for the basic and appropriate management of operational risks affecting the Group, it has the following tasks and responsibilities:

- Acceptance of operational risk policies and the methods and procedures proposed for the management and controlling of operational risks.
- If necessary, approval of the measures proposed to counter the obvious operational risks.
- Ensuring the conditions necessary to comply with the policies and review them regularly, including the design of a suitable organisation and the compilation of a cost budget necessary to implement it.

The above tasks and responsibilities are fulfilled by the Board of Directors based on the reports (including any extraordinary reports) on operational risks made available by Operational Risk Management on a regular basis. As part of the regular reports, the Board of Directors receives information on the development and status of the management processes applied for operational risks.

As for the identification, rating and measuring of operational risks, a risk classification is needed that differentiates between the individual operational risks based on various aspects, and also separates them. For this the Company applies the exposure classes defined in the CRR and the Basel directives.

According to the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter referred to as: the "CRR"), credit institutions shall ensure sufficient capital to cover the risks derived from their operation. They can choose from several approaches to calculate the capital to be provided based on the complexity and riskiness of the given institution's operation and other aspects. Such "other" aspects include, for example, whether the requirements have be to met as an institution that is independent from a regulatory point of view or as part of a group of institutions subject to consolidated supervision.

The Company, as a subsidiary of Bausparkasse Schwäbisch Hall AG, which itself is the subsidiary of DZ Bank AG, is subject to consolidated supervision.

Based on a group-level decision of DZ Bank, all group members manage their operational risks according to the standardised approach, therefore from 1 January 2008, the Company shall manage these risks according to the standardised approach.

35. Capital management

The main goal of the Company's capital management is to ensure prudent operations, fully comply with the regulatory capital adequacy requirements in order to pursue the given activity smoothly whilst maximising shareholder value and optimising the funding structure.

The Company's capital management covers the evaluation and management of own funds and capital-type financing available for covering risks, and all material risks to be covered by capital. The Company's capital management is based on the continuous monitoring of the capital situation in the short run, and on the business and strategic planning process in the long run, during which the Company's expected capital position is measured and forecast.

Essentially, the Company ensures an adequate capital level for the planned underwriting and to align with the regulatory requirements by developing and maintaining its profitability. If the Company's planned underwriting activity exceeds the capital coverage provided by own funds and the previously added Tier 2 items, the Company ensures prudent operations via one-off measures.

In its plans, the Company assumes a moderate dividend policy alongside stable profitability, owing to which the significant increase in equity facilitates compliance with the statutory capital requirements as well as with those calculated based on the internal capital calculation.

The Company classes itself as a "small institution" based on the criteria listed in the MNB's guideline:

- As a specialised credit institution, "its activity is not complex and focuses on a well-defined group of products".
- It has a "relatively small market share" in both retail lending and property financing.
- It does not apply any advanced methods as approved by the Supervisory Authority to establish the capital requirement for credit (standard), operational (standardised) or market risk. (Although the Company has kept a trading book since 2009 due to an amendment in legal regulations, according to the unchanged investment policy it holds its securities investments to maturity and does not carry out business transactions.)
- "It primarily provides its services in the territory of Hungary and does not perform any significant cross-border services" (it only provides services in Hungary).

The Company applies the "building block method" to calculate the capital requirement of the individual risk elements, i.e. it defines the required capital based on the experiential and factual data available and the models that set up based on this data, or if necessary based on estimates. Then it calculates the internal capital requirement by aggregating them.

Capital adequacy

The Company fully complied with external capital requirements during both 2019 and 2018.

The regulatory capital of the Company comprises only core capital (TIER 1).

According to Basel III requirements, the Company's regulatory capital breaks down as follows:

Table 35.1 - Capital management

(HUF million)	31.12.2019	31.12.2018
Tier 1 - Core capital /CET1/		
Share capital	2,001	2,001
Capital reserve	2,100	2,100
Retained earnings	44,074	40,270
of which: foreseeable dividends	-2,500	-2,500
Translation reserve	0	0
Other reserve	5,966	5,266
Deductions	-7,111	-7,088
of which: Intangible assets	-7,111	-7,088
Total regulatory capital	**47,030**	**42,549**

36. Fair value measurement

The Company has no financial instruments measured at fair value.

36.1. Fair value models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market prices (unadjusted) for identical assets and liabilities on active markets.
- Level 2: inputs other than quoted prices included within Level 1, that are observable either directly (as prices) or indirectly (derived from prices) for the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the value of the instrument. This category includes instruments that are valued based on quoted market prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company's objective is to maximise the use of observable (Levels 1 and 2) and minimise the use of unobservable (Level 3) inputs when measuring the fair value of the individual assets and liabilities.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

36.2. Valuation framework

In order to measure fair value reliably, from its financial instruments measured at amortised cost, the Company applies the discounted cash flow method to its receivables from clients, liabilities to banks and its customer deposits. Cash and cash equivalents include items that are immediately accessible, so their fair value equals the carrying amount.

The input information of the measurement techniques applied to measure the fair value of receivables from and liabilities to customers includes the following assumptions:

- the discount rates used for the discounting equal the sum of the risk-free interest rate and risk premium in the given foreign currency, valid for the given period,

- the fair value of sight deposits cannot be lower than their carrying amount.

In the case of asset and liability groups not measured at fair value in the statement of financial position, the Company applies an income approach when measuring fair values, transforming future cash flows into one current value.

Fair value of securities

The fair value of securities is measured based on the closing bid price quoted on the active market, applicable on the reporting date. For lack of this, the Company makes an estimate using directly or indirectly observable input data in order to measure fair values.

The Company uses the following information for fair value measurements:

- Stock exchange price,
- Government securities market quotes published by the ÁKK (Government Debt Management Agency),
- Current market yield premium in excess of the risk-free yield (government security with a similar term),
- Reference yields.

Fair value is measured as follows:

- Discounted Treasury bills: the exchange rate pertaining to the Government Debt Management Agency's (ÁKK) best purchase yield, calculated as of the reporting date.
- Treasury bills with a term shorter than 3 months: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Government bonds: ÁKK's best buying rate as of the reporting date.
- Government bonds with a term shorter than 3 months: the exchange rate pertaining to the purchase yield of the government bond with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Discount MNB bonds: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.

In the case of other bond assets not mentioned above it has to be examined whether there is an objective, transparent price source (stock market, OTC quotation operating in a regulated form). If yes, these price sources can be applied when measuring fair value, otherwise the Company applies the discounted cash flow method.

Fair value of bank deposits and interbank lending, trade receivables and other financial assets from non-derivative transactions

Bank deposits and interbank lending, trade receivables and other financial receivables typically have short-term maturity, thus the fair value of these financial assets measured for disclosure purposes equals the carrying amount.

Fair value of receivables from customers

The Company applies the discounted cash flow method when measuring the fair value of customer loans.

The Company uses the following techniques to measure fair value for fixed rate loans granted to customers:

- Bridging loans: For the portfolio of bridging loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments due in the bridging loan phase and the principal repayment in one amount at the end of the term, assuming that the cash flows will be received by the end of the bridging loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.
- Housing loans: housing loans are repaid on an annuity basis so there are both interest rate payments and principal repayments. For the portfolio of housing loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments and principal repayments due in the housing loan phase, assuming that the clash flows will be received by the end of the housing loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.

Fair value of liabilities to customers

The Company applies the discounted cash flow method when measuring the fair value of liabilities to customers.

Expected cash flows are determined for the deposit portfolio on a monthly basis, taking customer bonuses payable because of customer campaigns also into account. Future cash flows determined this way include contractual cash flows assuming the following:

- the customer will make payments as set forth in the contract over the term specified in the tariff;
- the Company does not reckon on payments to and from the deposit that deviate from the customer behaviour expected according to the contract;
- the amount of customer bonuses is considered in the determination of the deposit cash flow with a probability that equals the probability based on backtesting of the customer being expected to become entitled to receive customer bonus at the end of the savings period specified in the tariff.

The Company uses home savings market interest rates as the discount factor to calculate discounted cash flows. This discount factor is the weighted average of:

- transaction interest rate of new home savings contracts as per the tariff,
- amount of bonus due under the customer campaign, and the interest rate annualised using the account-opening fee and the account-management fee.

Fair value of trade liabilities, other financial liabilities from non-derivative transactions

Trade liabilities and other financial liabilities typically have short-term maturity, thus the fair value of these financial liabilities measured for disclosure purposes equals the carrying amount.

36.3. Financial instruments not measured at fair value

The following table summarises the fair values of financial instruments not measured at fair value according to the level of the fair value hierarchy into which they would have been put based on the inputs underlying the measurement:

Table 36.3.1 - Financial instruments not measured at fair value

(HUF million)					31.12.2019
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	56,353	0	0	**56,353**	56,353
Securities	121,832	0	0	**121,832**	109,412
Receivables from customers	0	0	478,200	**478,200**	453,176
Other financial receivables	0	533	0	**533**	533
Liabilities					
Liabilities to customers	0	0	585,324	**585,324**	562,415
Other financial liabilities	0	7,692	0	**7,692**	7,692
(HUF million)					**31.12.2018**
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and cash equivalents	11,419	0	0	**11,419**	11,419
Securities	128,760	0	0	**128,760**	121,279
Receivables from customers	0	0	424,750	**424,750**	409,089
Other financial receivables	0	267	0	**267**	267
Liabilities					
Liabilities to customers	0	0	500,539	**500,539**	487,128
Other financial liabilities	0	1,193	0	**1,193**	1,193

37. Disclosures required by the provisions of the Act on Accounting

Disclosures relating to mandatory audit

The Company's financial statements must be audited.

Information on the auditor: Ernst & Young Könyvvizsgáló Kft. (1132 Budapest, Váci út 20.)

Natural person auditor: Gergely Szabó (Registration number: 005676)

Fees charged by the audit firm in the reporting year:

- Audit: HUF 19 million + VAT
- Other assurance services: HUF 8 million + VAT
- Other review: HUF 1.5 million + VAT

The auditor has no loan liabilities to the Company.

Person responsible for bookkeeping services

Person responsible for managing and directing bookkeeping-related tasks:

Gergely Péter Kállay (Registration no.: 202008; field of expertise: business, IFRS).

Registered office of the Company

Registered office of the Company: 1123 Budapest, Alkotás utca 55-61.

Equity correlation table

The following equity correlation table, which complies with the requirements of Section 114/B of the Act on Accounting, shows the reconciliation of equity components as per Section 114/B of the Act on Accounting and the components of equity as per the financial statements (EU IFRSs). The reconciliation comprises the allocation of the EU IFRS equity components to the equity components under the Act on Accounting, as well as the derivation of the differences between the equities defined in two ways.

Table 37.1 - Equity correlation table

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2019							Total
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit/Loss after tax	Valuation reserve	Allocated reserve	
Share capital	2,001	0	0	0	0	0	0	**2,001**
Capital reserve	0	0	2,100	0	0	0	0	**2,100**
Retained earnings	0	0	0	39,570	0	0	0	**39,570**
Settlement reserve	0	0	0	6,959	0	0	0	**6,959**
General reserve	0	0	0	0	0	0	5,966	**5,966**
Reporting-year profit after tax	0	0	0	0	7,004	0	0	**7,004**
Revaluation reserve	0	0	0	0	0	0	0	**0**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2,001**	**0**	**2,100**	**46,529**	**7,004**	**0**	**5,966**	**63,600**
Equity as per the Act on Accounting	**2,001**	**0**	**2,100**	**46,529**	**7,004**	**0**	**5,966**	**63,600**

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2018							Total
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit/Loss after tax	Valuation reserve	Allocated reserve	
Share capital	2,001	0	0	0	0	0	0	**2,001**
Capital reserve	0	0	2,100	0	0	0	0	**2,100**
Retained earnings	0	0	0	35,854	0	0	0	**35,854**
Settlement reserve	0	0	0	6,959	0	0	0	**6,959**
General reserve	0	0	0	0	0	0	5,266	**5,266**
Reporting-year profit after tax	0	0	0	0	6,916	0	0	**6,916**
Revaluation reserve	0	0	0	0	0	0	0	**0**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2,001**	**0**	**2,100**	**42,813**	**6,916**	**0**	**5,266**	**59,096**
Equity as per the Act on Accounting	**2,001**	**0**	**2,100**	**42,813**	**6,916**	**0**	**5,266**	**59,096**

The amount of share capital as per EU IFRSs shown for 31 December 2019 and 31 December 2018 in the table above equals the amount of capital registered by the court of registration.

The following table presents free retained earnings available for dividend payment:

Table 37.2 - Calculation of funds available for dividend payment

(HUF million)	31.12.2019	31.12.2018
Retained earnings	39,570	35,854
Profit for the year	7,004	6,916
Funds available for dividend payment	**46,574**	**42,770**

38. Changes to the Act on Home Savings Associations

Act LXIII of 2018 amended Act CXIII of 1996 on Home Savings and Loan Associations. The amendment was accepted by Parliament on 16 October 2018 and entered into force on 17 October.

Under the amendment:

- home savings contracts concluded after the amendment entered into force shall not entitle the home saver to government grant,
- if the savings period of home savings contracts concluded before the amendment took effect is extended after the amendment entered into force, the home saver shall not be eligible for government grant for the extended savings period; government grant may not be claimed for this extended savings period.

In accordance with the amendment, in the case of home savings contracts concluded before the amendment took effect, the home saver is still eligible for government grant until the end of the contract term.

In accordance with the amendment, the Government is authorised to regulate in a decree the detailed rules regarding credit-institution adverts and promotions for home savings and loans receiving government grant in line with the Act on Home Savings and Loan Associations. Such a legal regulation has not yet been adopted.

The management of Fundamenta-Lakáskassza Zrt. took into account all available information about the future and established that the going concern assumption is appropriate. Following the change in law dated 16 October 2018 the Company prepared several scenarios to analyse the medium-term impacts of the changes. The change in legal regulations has a negative effect primarily on the new business volume, but it also may trigger changes in the behaviour of existing customers thus in the development of customer portfolio. Of these latter effects, particularly the behaviour of customers who are at the end of the contractual term may have significant impact on liquidity and the development of the portfolio even in the short term. The Company analysed possible effects using various scenarios and stress tests and the results demonstrate that the Company's cash flows and liquidity position will remain stable in the coming years. No deterioration in profitability or liquidity problems are expected even in a stress situation.

Budapest, 11 February 2020

Bernadett Tátrai	**Rainer Kaschel**
Chairwoman of the Board, Chief Executive Officer	Member of the Board

Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Business Report

31 December 2019

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1. EXTERNAL FACTORS INFLUENCING THE ACTIVITY OF LAKÁS-TAKARÉKPÉNZTÁR

1.1. General macroeconomic conditions

Growth

Based on information known by the date of our report, the Hungarian economy grew by around 5% in 2019, in excess of the provisional expectations. Every sector contributed to his growth. On the consumer side, economic growth was still primarily bolstered by favourable income processes, domestic demand driven by a lively household loan market and state and private investments that presented double-digit growth. On the output side, owing to strong domestic demand the value added in both market services and the construction and industrial sectors increased. The National Bank of Hungary expects economic growth of 3.7% for 2020 and 3.5% for 2021 and 2022. Household consumption and investments in the national economy (at a stable rate of around 29% in the next three years) still remain strong, and together with the rise in exports they both support growth.

Labour market

In 2019 the labour market participation rate among those aged 15-64 continued to increase steadily, averaging out above 70% for the year. Alongside the rise in employment the number of those out of work fell to a historic low, with the unemployment rate being 3.5 percent in an annual average. Continuing the trend from previous years, average gross wages in the private sector climbed by double-digit rates, which trend may still continue in the following years at a slightly decreasing rate. The National Bank's latest estimate predicts the unemployment rate will stabilise at 3.5% in the period between 2020 and 2022.

Inflation

In 2019 inflation proved to be much more variable, testing several times the upper limit of the tolerance band during the year. Taking the annual average though, inflation likely came in at 3.3%, which is higher than the National Bank's forecast at the end of 2018. According to current expectations of the National Bank of Hungary, inflation will accelerate again next year (a 3.5% change in consumer prices is expected alongside core inflation of 4%), then in 2022 it will stabilise at the 3% inflation target.

Equilibrium

In 2019 Hungary's external financing capacity was around 1.8% of GDP. As a result of the decline in the trade balance and the dynamic expansion of import-intensive investments, the current account balance presented a deficit of 0.5% of GDP. From 2020 net exports will also make a positive contribution to economic growth. In 2019 the budget deficit was in line with the 1.8% plan set forth in law, and it is expected to decrease to 1.0% in 2020. Owing to significant economic growth and reduced net financing needs, by the end of 2019 the gross state debt relative to GDP fell to 66.3%, and this may drop below 60% by the end of 2022.

Interest rates, currency rates

In 2019 the National Bank of Hungary made no change to the base interest rate of 0.9%, and at the end of the first quarter as a one-off step it raised the interest on one-day deposits by 10 basis points from minus 0.15% to minus 0.05%. Until the end of the first six months, it seemed that the National Bank of Hungary might set out on a path of cautious tightening. However, with the revival of the international markets, and parallel to the interest rate cuts and/or asset purchasing policies of the big central banks, in the second half of the year it maintained its characteristically loose monetary policy. The shorter side of the government security yield curve was stuck at a level of "0" throughout the year, while longer yields (3-15 years) kept slipping downwards by 100 basis points. The Hungarian 10-year benchmark yield dropped to 2.00% by the end of the year. Demand for government securities was unwavering both for institutional papers and retail government papers. In its issuance plan for 2020, the Government Debt Management Agency (ÁKK) reacted to the outstanding year-end sales figures of over HUF 3,000 billion generated by the Hungarian Government Security Plus introduced in June by restraining institutional funding.

The HUF exchange rate against the EUR displayed an intriguing picture, alongside a continuous devaluation of 3% for the entire year. Exiting its HUF 315-325 range from the start of the year, in the second half of the year the exchange rate reached a new historical low of HUF 325-335.

Changes in the home savings and loans market in 2019

There were significant changes in the home savings and loans market in 2019. Erste Lakástakarék Zrt. took over Aegon Lakástakarék Zrt.'s portfolio, then on 1 November OTP Lakástakarék suspended the sale of home savings and loan products, thereby reducing the number of active market participants to two.

1.2. Housing policy measures by the government

The government still pays close attention to its family support policy including providing help specifically for young people and families with children in setting up their homes.

In 2019 the loan markets were dominated by Family Housing Allowance Schemes such as "CSOK", "Village CSOK" and the "Childbirth Incentive Loan", and because of the favourable conditions of these products the share of regular housing loans shrank.

The APR levels for housing loans are still historically low. Thanks to the ground gained by "Consumer-friendly housing loans", in 2019 fixed-rate loans accounted for the majority of the new disbursements, ensuring stability and predictability for both the banking system and customers. Fundamenta-Lakáskassza Zrt. (hereinafter referred to as "Company" or "Fundamenta") provides loans with set conditions throughout the loan term.

In 2019 the number of issued building permits for houses settled at around the 2018 level and the number of new homes handed over stayed also at the previous year's level. The number of real estate market transactions were also very similar to 2018, so we see that the number of housing construction projects and transactions is around the peak figure of the previous year. Thanks to the intensive housing market activity, housing prices again rose. This glosses over some significant differences between regions around the country and the types of municipality. In November 2018 the government decided to amend the "housing VAT rule", according to which, with certain restrictions (date of building permit) the 5% rate of preferential VAT for housing was extended for 3 years. This move certainly will extend the period of the house construction boom because of the construction and sale of projects that obtained building permit.

1.3. Legal environment influencing the activity of home savings and loan associations

As a new form of cooperation between the state and home savings and loans associations, government securities are now sold by these associations too as set forth and supplemented in the Home Savings and Loans Act too. Selling government securities to the widest circle of clients in the greatest number appeared as a new government target in 2019, in which home savings and loans associations played a crucial part. As a result of successful IT developments following the law amendment taking effect on 13 April 2019, the subsidiary of the Company has been selling government securities successfully and enjoying extraordinary results since June 2019.

The special rules governing the operations of home savings and loan associations are included in three legal regulations: Act CXIII of 1996 on Home Savings and Loan Associations (Home Savings and Loans Act), Government Decree 215/1996 (XII. 23) on Government Support for Savings for Housing Purposes (Housing Savings Decree) and Government Decree 47/1997 (III.12) on the General Terms and Conditions of Home Savings and Loans Associations (Home Savings and Loans Decree).

After entering into force in 1997, the next major amendments to the regulations came in 2002-2003, in 2006-2007, in 2011 and then the most significant change in 2018 by revoking the government grant as set forth in the Act.

The Home Savings and Loans Act was amended twice in 2019:

- The provisions of Section 12, which outlines the scope of activities home savings and loans associations are entitled to conduct, were supplemented in relation to government securities by Act XXVI of 2019 on the amendment of various financial acts effective as of 13 April 2019 with investment service activities as defined in the Act on Investment Firms and Commodity Dealers, with related ancillary services and with the mediation of the defined services as tied agents;
  Act CXVIII of 2019 on the amendments of certain laws regulating financial intermediary systems, the state budget and economic stability, as promulgated on 18 December 2019 and taking effect for the Home Savings and Loans Act on 26 December 2019, includes changes revoking the rule forbidding periodic and partial payments for contracts without government grant. Additionally it expands the scope of activities housing savings and loan associations are entitled to conduct, and no authorisation from the National Bank of Hungary is necessary to modify the general terms and conditions for schemes without government grant.

In 2019 the provisions of the Housing Savings Decree and the Home Savings and Loans Decree are amended by Government Decree 316/2019 (XII.18) on the amendments of government decrees on the financial intermediary system, and these changes took effect on 1 January 2020.

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) providing the legislative background for the activity governed in the Home Savings and Loans Act was amended a total of 7 times in 2019. The following laws constituted the main amendments:

- Government Decree 244/2019 (X.22) on the amendment of certain government decrees related to the review of the concept of simplified reporting;
- Government Decree 295/2019 (XII.10) on the amendment of certain government decrees on construction;
- Amendment of Act XCIII of 1990 on Duties;
- Act C of 2019 on the amendment of certain laws designed to implement various tax measures under the Programme for a More Competitive Hungary;
- Act CXII of 2019 on amending and repealing provisions in connection with the entry into force of Act LXXX of 2019 on Vocational Education and Training;
- Act CXVI of 2019 on the necessary legal amendments for the simplification and electronisation of certain procedures;
- Amendments to Act LIII of 2017 on the Prevention and Combating of Money Laundering and the Financing of Terrorism and certain related acts;
- Act LIII of 1994 on Judicial Execution;
- Act CXXX of 2016 on the Code of Civil Procedure.

Furthermore, the scope of activities that home savings and loans associations may conduct was expanded.

2. STRATEGY AND GOALS OF FUNDAMENTA-LAKÁSKASSZA

2.1. Strategy of Fundamenta-Lakáskassza (2019-2022)

In the strategy updated in 2019, alongside the goal of establishing a home financing and housing ecosystem, the following four main paths were identified:

- Growth: we still see potential for growth in saving for housing purposes and in lending, so this remains an important goal for us.
- Customer focus: we are convinced that we can establish long-term customer relationships by understanding our customers' needs and serving them better, for the implementation of which we set substantial tasks for us.
- Efficiency: with interest rates falling and market competition intensifying, service providers who understand their customers' needs and can satisfy them more quickly, simply and less expensively will be successful. Our digitalisation efforts are aimed to achieve these objectives.

- Risk awareness: as a major player on the credit market we have to know and understand the risks associated with our operations; appropriate management of them is our joint responsibility.

Our objectives also included further growth in the volume of deposit and loan contracts with a view to securing profitable operations on a sustainable basis; other key priorities included our steadily improving processing and sales efficiency, expanding our range of products through introducing new products, providing a high standard of customer service, retaining existing customers and maintaining excellent quality of the deposit and loan portfolios.

Beside the mediation of government securities performed through its subsidiary and introducing new housing savings accounts, starting the development of the “Housing Ecosystem” was one of the most significant innovations of the Company in 2019, which means the Company is able to support its clients in more and more areas of housing by entering new market segments.

The first step of implementing the strategy was the launch of **Fundamenta Solar** with a focus on mediating and financing solar panel installations. Another extensive and new development in 2019 was when the Company entered the real estate brokerage market in October through its newly established subsidiary. By launching **Fundamenta Property** the Company can handle the buying and selling of real estate and their financing by itself.

2.2. Future goals

As the market-leading home savings and loan association, Fundamenta-Lakáskassza Zrt. is committed to supporting its customers in reaching their housing objectives.

The volume and expected timing of deposit payments and loan disbursements can be mapped out well years in advance based on the still predictable customer behaviour. Giving our customers a high standard of service and retaining their trust remains an important objective.

The main challenge in 2020 will be further expanding the range of new deposit and loan products, analysing the behaviour of existing and new customers, and exploring new business opportunities to be able to compile reliable plans for the future.

As part of implementing the housing ecosystem scheme, in 2019 Fundamenta-Lakáskassza Zrt. established its second subsidiary, Fundamenta Értéklánc Kft., whose core activity is currently intermediating solar panel systems and real estate.

To ensure sustainable growth in the long run we still have a key strategic goal of fine-tuning, developing and motivating our sales channels.

The Company continuously develops its products, services and customer service to strengthen its customer-centred approach and react to market competition.

The digitalisation of operating and customer procedures, launched projects, new IT applications, the cost centre system introduced earlier and central purchasing offer significant help in meeting the constantly growing client and partner demands and in improving operating efficiency, which is formulated as a strategic objective.

Constant fine-tuning is carried out to raise risk awareness: the goal is to preserve the outstanding quality of the Company's housing loan portfolio and keep operational risks low.

Fundamenta-Lakáskassza Zrt. can bank on having a significant customer portfolio and stable financial results in the coming years. This is based on the sales performance of the sales channels, improving operational efficiency, the high commitment of staff, the stable and favourable conditions of the products and the further growth expected in customer demand for products saving for the future.

3. SALES ACTIVITY

Sales performances in 2019 were greatly impacted by the law amendment taking effect on 17 October 2018, according to which government grant was removed for contracts concluded or extended after the act took effect. The favourable macroeconomic environment and the persistently low interest rates, the growing employment numbers and the climbing real wages all fostered good conditions for the sale of housing savings accounts. Due to the change in legislation and the contracts brought forward for 2018 as a result, sales of the Company's housing savings accounts dropped in 2019 to the level of 5 years ago.

The Company's sales organisation working with Fundamenta-Lakáskassza Kft. as a tied agency continued to operate effectively, thanks to which more than 95% of the new contracts were concluded by the Personal Banker network. The ratio of contracts concluded online and by the Outgoing Call Centre amounted to 2%.

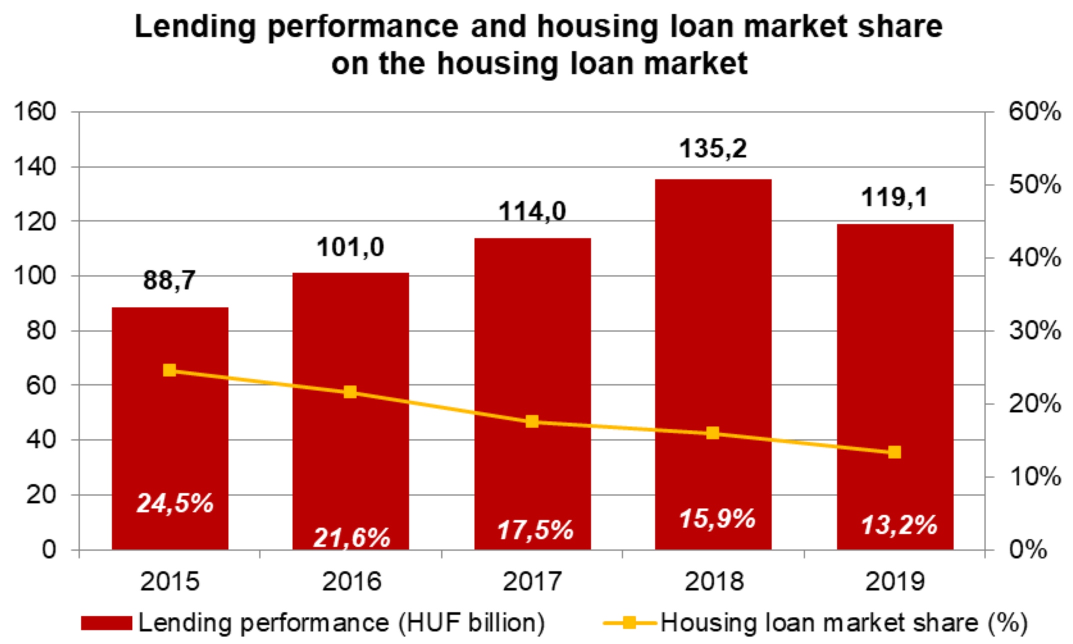
In the Partner Sales division there was significant restructuring compared to 2018. The Hungarian Post Office, our strongest performing partner in previous years, decided in its new strategy to only sell products in its own interest, so it terminated the sale of housing savings products. The best performing partners were brokers, Takarék Group, Generali Insurance, Allianz Insurance, UniCredit Bank and K&H Bank, but the performance of these partners did not reach significant volumes.

In 2019 customers opted for contractual amounts that were 30% higher than in 2018. The main reason for this increase was that our new products designed for the changed legal environment offered much higher contractual amounts, up to HUF 50 million, compared to previous contracts. One important change in 2019 is that among the new contracts the ratio of the shortest options, the 4.5-6.5-year products, fell to 34%; at the same time, more than 25% of customers chose products with a term of at least 10 years, often to provide for their children.

Besides the “Provident” (Gondoskodó) Home Savings Account introduced as a consequence of the legislative amendments effective as of 17 October 2018, from April 2019 we launched the sale of “Growth” (Gyarapodó) and Children’s Home Savings Accounts. As a way to adapt to growing real estate market prices the “Growth” Home Savings Account is offered with much higher savings amounts than before. The longer the term and the higher the monthly saving amount, the higher the bonus credited, up to 22.5%. With the Children’s Home Savings Account, the contracting party can promote the future housing dreams of the minor beneficiary including an annual bonus of 30%. In November the “Provident” (Gondoskodó) Home Savings Account was disposed of, and it was replaced on the product palette by the Home Planning Savings Account, which helps clients realise their housing dreams under extremely favourable interest rates.

The expansion of the housing loan market continued in 2019. By the end of the year the Hungarian housing loan market had expanded to approximately HUF 900 billion, which is reminiscent of the lending boom prior to the crisis. The lending intensity of banks also rose, which was triggered not only by the brisker demand but also by the low interest rates. The elements of the Family Protection Action Plan (“CSOK”, “Childbirth Incentive Loan”) still played a key role in the growth by increasing the demand for houses.

The Company was a factor in this amount with new loan placements amounting to HUF 119 billion. On the growing housing loan market this resulted in a market share of around 13%. The household lending performance is supplemented with around HUF 2.8 billion in loans to multi-occupational buildings and housing cooperatives.



In terms of purpose of use the sequence has not changed: the most common use of the funds is to purchase a home. Compared to 2018 the ratio of construction and renovation as well as loan replacement rose slightly among all the different uses.

4. FINANCIAL INFORMATION

4.1. Deposit and loan portfolio

The customer deposit portfolio together with the government grant and accrued interest (excluding transaction costs and fees) totalled HUF 575,420 million on the reporting date. Compared to the 2018 year-end portfolio this represents growth of 15% or HUF 74,250 million.

The increase in deposits was fairly even throughout the year, customer savings made in 2019 rose 6% compared to the previous year.

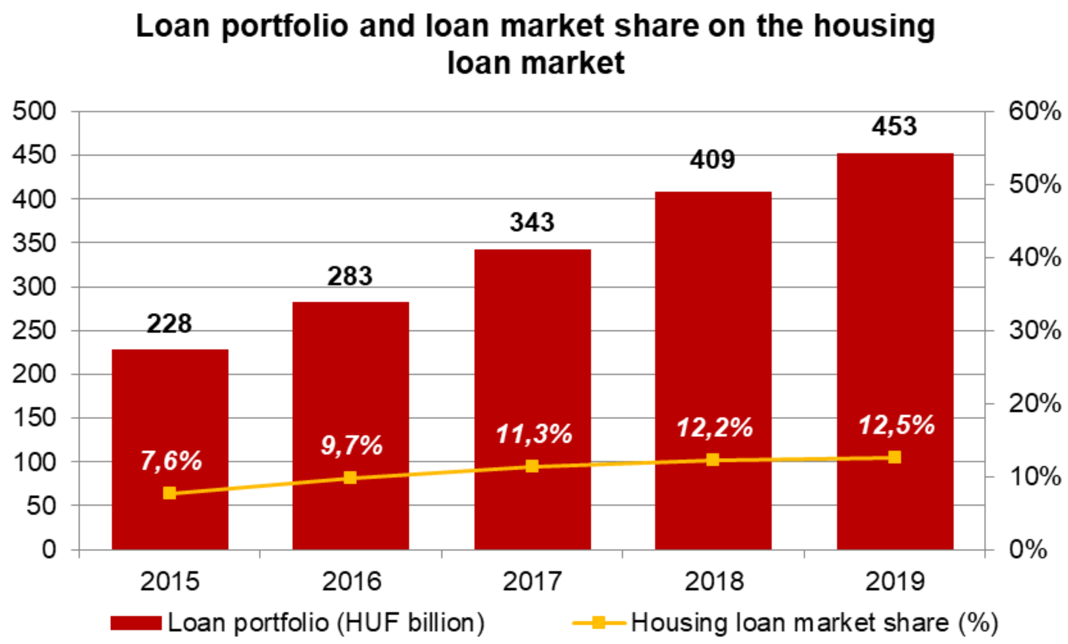
The vast majority of the deposits (95%) are still household deposits. Multi-occupational buildings and housing cooperatives account for 5%, roughly the same as the previous year.

Although the number of partial and full early repayments rose, not surprising given the low interest rates, the loan principal portfolio still expanded considerably, up from the previous year's HUF 408,806 million to HUF 453,062 million, which represents almost an 11% increase.

Description	2015	2016	2017	2018	2019
Outstanding principal (HUF million)	228,424	282,613	343,084	408,806	453,062
Number of loan contracts	93,562	103,652	112,652	121,751	125,124

The period-end loan portfolio rising to above HUF 453,062 million includes normal housing loans (roughly 12%), and bridging loans (88%), which is essentially a minimal change in composition compared to the previous periods. The normal housing loan portfolio is still dominated by lower-interest (3.9%) contracts. The interest conditions of the bridging loans are determined using our pricing model and adapting flexibly to market changes.

In terms of the entire housing loan portfolio, the market share of Fundamenta-Lakáskassza Zrt. continued to rise in 2019, and at the end of 2019 the credit institution held almost 12.5% of the entire Hungarian housing loan portfolio.



The quality of the portfolio remains excellent, and the vast majority of the transactions in the portfolio, 96%, are secured with mortgages.

4.2. Investment activity

Our interest-bearing portfolio under assets rose in 2019 from HUF 541.8 billion to HUF 618.9 billion.

The joint portfolio of bank deposits and interest-bearing securities increased during the reporting year from HUF 132.7 billion to HUF 165.8 billion. This shows that, in contrast to our previous loan-dominated growth, the increase in our balance sheet total became more balanced, as expected based on the preliminary model calculations. Within this portfolio the stock of interest-bearing securities fell by around HUF 12 billion, while the bank deposit portfolio rose significantly, by almost HUF 45 billion. 81% of the bank deposit portfolio consisted of deposits placed with the central bank, and 19% with resident credit institutions. There are two significant factors behind the marked growth in the deposit portfolio. On the one hand, the childbirth incentive loans available from the summer of the reporting year dampened demand for new loans and the loans already in the books; on the other hand, due to the persistently high liquidity of the HUF in the banking system, government securities expiring within one year reached yields by the end of the year at which it was simply not realistic to renew maturing securities.

The duration of fixed-rate monetary and capital market portfolios dropped from 4.7 to 3.7 within one year. The change reflects the Company’s somewhat more cautious approach to the market, which is primarily attributable to applying more cautious customer behaviour models considering the completely new regulatory setting, since at the moment only shorter periods of data are available on the behaviour of the clientele in light of the new environment.

Neither during the reporting year nor at the end of the year did the Company have a forward bond position.

The investment strategy focuses not only on strict liquidity management, but also, again, on long-term balanced profitability; it is ensured by consistent asset/liability management. Tools for this are as follows:

- Long-term (8-year) strategic plan;
- Monthly liquidity plan derived from the strategic plan;
- Medium-term (1-2 year) liquidity plan, with analyses of planned/actual figures;
- Macroeconomic analyses updated monthly;
- Regular credit market analyses;
- Portfolio model updated monthly, monitoring of special parameters regarding customer portfolios (e.g. borrowing ratio, willingness to save, etc.).

. The ALCO is the main body managing assets and liabilities.

4.3. Financial position and profitability

The total assets of Fundamenta-Lakáskassza Zrt. on the reporting date amounted to HUF 638,773 million, which represents growth of around 15.5% compared to the previous year. Most of this growth stems from the 15.5% increase in liabilities to customers.

The Company's share capital totals HUF 2,001 million, which is supplemented with a capital reserve of HUF 2,100 million and retained earnings of HUF 39,570 million. Provisions in the reporting year totalled HUF 1,541 million (0.24 percent of total assets). The largest item under provisions (HUF 749 million) is the provision recorded for retention commission expenses. In line with the IFRS standard, the settlement provision (HUF 6,959 million net) is recognised as an equity component. Its amount did not change in 2019.

The Company closed 2019 with a profit before tax of HUF 8,389 million, slightly lower than in 2018, but profit after tax of HUF 7,004 million, which is up on the previous year. The planned dividend is the same as the previous year at HUF 2,500 million.

The profit before tax exceeds the planned result. Below we present the main reasons for the deviations from the planned figures.

- Return on investments

The gross investment portfolio excluding interests this year grew more dynamically than planned, by HUF 77.1 billion. In contrast, the profit from non-customer-related receivables (securities, bank deposits) fell short of the planned level. This is owing primarily to the low-yield environment.

- Net commission income/expense

Given that the sales performance slightly fell short of expectations, commission expenses were lower than in the previous year, and than planned, furthermore, the majority of the items accounted for as commissions were accounted for using the effective interest method under interest income/interest expense over the term, in accordance with IFRS provisions.

- Fee income

The Company collected account-management fee income in 2019 amounting to HUF 1,398 million, which is HUF 9 million less than planned. The account-opening fees recorded for the new contracts sold and the increased contracts were accounted for using the effective interest method under interest expense over the term of the contract, and so did not influence the 2019 profit directly.

- Costs

Personnel expenses decreased by 3.8% compared to the previous year. Other administrative costs compensate slightly for this deviation from the plan, but all in all the aggregate level of costs did not reach the planned or even last year's level.

The quality of loans was very favourable in 2019 as well. The impairment recorded on the loans was HUF 103 million less than planned.

5. RISK MANAGEMENT

Through its majority owner Bausparkasse Schwäbisch Hall AG, Fundamenta-Lakáskassza Zrt. is part of the DZ Banking Group, so from a risk management perspective it also observes regulatory and supervisory requirements from Germany, via its parent company, in addition to complying with Hungarian regulations.

Fundamenta-Lakáskassza Zrt. is still a specialised credit institution with a conservative lending policy and risk appetite.

The credit institution's Board of Directors is committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. Fundamenta-Lakáskassza Zrt. shapes its risk assumption, risk management and control procedures in such a way that they support its secure operations. The Company ensures that it elaborates, implements and executes the right standard of risk management procedures by engaging an independent risk management organisation.

Fundamenta-Lakáskassza Zrt. measures and classifies its portfolio based on IFRS 9; the annual development of the methodology ensures the conditions for prudent operations in the long term.

The risk management body manages the following risks on a regular basis:

Credit risk

Fundamenta-Lakáskassza Zrt. is a specialised credit institution, which considers housing loans extended to private individuals, multi-occupational buildings and housing cooperatives in connection with home savings deposits to be credit-risk products. One of the Strategic Risk Management Directorate's key tasks is supporting the Company's long-term profit generation capacity; accordingly, the measures are adopted in line with the risk underwriting strategy.

Interest rate risk in the banking book (IRRBB)

Regular calculations are carried out to review the impact on the changes of net interest income and economic capital exerted by interest trend scenarios compiled in accordance with the MNB's methodology handbook published in February. Our investment policy along with our lending activity ensured interest income evolved as planned – the Company's long-term operation is ensured.

Operational risk

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

In 2019 operational risk loss was below the planned figure.

Liquidity risk

Based on the principle of prudence, uncertain income is included in the plans at the latest date, while uncertain expenses are included at the earliest date based on customer behaviour. The Company employs an annual revolving liquidity plan. Following the legislative amendments affecting the 2018 home savings system, in 2019 close attention was paid to analysing liquidity planning as well as stress scenarios.

Collective risk

Following the amendment to the Home Savings and Loan Association Act, managing collective risk is a crucial part of the basic principles applied during strategic planning. Based on the scenario analyses, stable operations and a stable capital position are ensured for the coming period even in a stress scenario. Regular analyses are prepared alongside the continuous monitoring of market circumstances.

After the legislative changes in October 2018, the future operating conditions for Fundamenta-Lakáskassza Zrt. were reviewed from a risk management perspective. A stable liquidity and capital position are ensured

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based on the scenario analyses. In 2019 the risk awareness principle prevailed in accordance with the objectives of the general business strategy.

6. EMPLOYMENT AND TRAINING POLICY

Year-end headcount as at 31 December 2019 was 636, of which 526 were in active status (43 persons were employed part-time).

In 2019 the employment policy of Fundamenta-Lakáskassza Zrt. supported the implementation of the medium-term corporate strategy modified as a consequence of the legislative amendment, which includes customer experience and the continuous improvement of external and internal customer satisfaction as key elements.

Besides the sales network, the central support functions also played a vital role in the fast and successful initiation of the revamped strategy. This renewal provided many of our colleagues with opportunities to advance their careers within the Company, we supported the acquisition of skills necessary for the new product palette and technologies through training, and we began the deliberate planning of new generations of employees under our talent programme. The performance management system introduced in 2018 in order to support efficiency, a focus on performance as well as prudent operations contributed significantly also in 2019 to the creation of harmony between the objectives and results at the corporate/organisational level and for individuals, in terms of outstanding business performance.

When selecting, integrating, training and encouraging our staff the Company pays close attention to ensuring that the existing or targeted professional skills support the committed implementation of the four strategic pillars – customer experience, risk awareness, growth and efficiency.

Besides all this, the Company concentrates on maintaining and improving the satisfaction and welfare of its colleagues. Flexible working opportunities, such as teleworking, part-time arrangements and letting staff choose their working hours were steadily expanded. The fringe benefits system was expanded in 2019 as well, to enable it to support staff as much as possible in achieving a work/life balance, placing strong emphasis on a healthy lifestyle.

Fundamenta-Lakáskassza Zrt., as a specialised credit institution within the scope of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act), is obliged to have a remuneration policy defined in an internal policy that is commensurate with its financial and auxiliary financial service activity, as well as with the nature, size, complexity and risks of its business model.

The fundamental goal of the Remuneration Policy is to create an incentive scheme for staff that favours the achievement of long-term goals over short-term interests; one that reflects the Company's ability and willingness to underwrite risks, that does not encourage excessive risk-taking, but motivates the organisation to work successfully in the long run, and provides an opportunity to make subsequent corrections based on risks. The Remuneration Policy is consistent with the institution's risk profile and it has to facilitate effective risk management. It also has to reflect the actual performance of workers and their individual added value to the Company's performance.

In terms of basic remuneration, the Company offers fair and competitive salaries that reflect the qualifications and professional experience of the staff, the complexity of the job and the level of responsibility. The Company reviews remuneration practices once a year, and takes part in the Hays salary analysis.

The Company's variable salary system (bonuses and commissions) acts as an incentive, enabling us to recognise the outstanding performance of staff.

The remuneration policy for sales was completed in 2018, which took effect on 1 January 2019. The fringe benefit system available for our employees enables colleagues to choose services that fit their individual needs and lives.

Trends on the labour market are a challenge for the Company too, so in the reporting year too it paid close attention to strengthening its employer brand with a view to reaching and becoming attractive for the right people, providing a steady flow of employees for expert positions. Intensive relationships were established with several higher education institutions, and our trainee programme has provided many colleagues with the chance to enter the working world.

We believe that an employee focus is just as important as a customer focus. During the first three months new colleagues undergo intense training on the Company's products, the market and the workings of its organisation. Learning about related areas, primarily sales, is important. After sitting the necessary examinations, every colleague has the opportunity to sell savings products. New joiners can gain insight into the work of several related areas, receiving constant feedback from their managers and HR business partners.

Project work is part of the corporate culture, which offers many staff members a chance to make progress in their career, regardless of their place in the organisational hierarchy.

Innovation is crucial too. In connection with the innovation competition organised during the year our colleagues were able to play an active role in shaping the corporate culture, and many 21st-century solutions were adopted to improve working conditions at the new head office. As part of our training system and alongside the professional and classroom training, we support employees in gaining modern market knowledge and monitoring trends. Our colleagues took part in conferences, webinars and online courses, while sharing international experience takes place frequently at the German parent company too. Over and above our professional know-how, this year we focused closely on management training, based on which we were able to provide support for change management processes.

7. ENVIRONMENTAL CONSCIOUSNESS

In its operations the Fundamenta Group pays special attention to its sustainability goals and principles, and compliance with related measures is a key goal.

The Company’s primary focus when choosing the new office building was being able to work in an environmentally-conscious manner. To reduce our energy use, energy-saving LED light sources were installed everywhere, motion sensor lights are used in many rooms of the building, and at the end of a working day any lights left on are turned off. Selective waste collection is ensured at the Client Point and in the headquarters, and with the installation of drinking water machines colleagues are encouraged to avoid using plastic bottles.

8. CORPORATE SOCIAL RESPONSIBILITY

For Fundamenta-Lakáskassza, corporate social responsibility means above all else supporting vulnerable and underprivileged people and those living in extreme poverty. The objectives, such as voluntary work and individual support, “outgrew” their previous framework, so in January 2013 the Group established its own foundation, the Fundamenta “Gondoskodás” Foundation. Since its beginnings the goal of the Foundation has remained unchanged: supporting children living in tough conditions, and those unable to support themselves or assert their interests. Since 2017 the Foundation has regularly published calls for tender to support children and their families who are socially disadvantaged and live in extreme poverty. This way, many families were able to buy fuel for the winter or school supplies for their children.

Fundamenta has been organising fundraising events during the Advent period for many years, and in 2019 it distributed close to 1400 Christmas presents for children whose parents are faced with the difficulty of even making ends meet, and cannot afford Christmas gifts.

The Foundation has been operating as a non-profit organisation since 2016, which serves as acknowledgement and confirmation of the efforts it has made over the years to help people in need.

Through the Foundation the employees of Fundamenta can link up with the CSR activities, support those in need via voluntary programmes, and participate in collecting donations and organising charity campaigns.

9. PLACES OF BUSINESS

Since 1 April 2019 the registered office of Fundamenta-Lakáskassza Zrt. has been 1123 Budapest, Alkotás utca 55-61. Apart from Fundamenta-Lakáskassza Zrt., this modern, environmentally conscious office building also accommodates the subsidiaries. In addition, the Company has two permanent establishments in Budapest and four branch offices around the country:

List of permanent establishments:

- 1027 Budapest, Tölgyfa u 24.
- 1108 Budapest, Kozma utca 2.

List of branch offices:

- 2040 Budaörs, Gyár utca 2.
- 9024 Győr, Kálvária utca 1-3. IV. em.
- 4025 Debrecen, Erzsébet utca 48-50. fszt.
- 6720 Szeged, Kelemen László utca 11. fszt.

10. SUBSEQUENT EVENTS

There was no significant event subsequent to the reporting date up to the approval of the financial statements.

11. NON-FINANCIAL INFORMATION

11.1. Business model of Fundamenta-Lakáskassza Zrt.

Fundamenta-Lakáskassza Zrt. is a home savings association, a specialised credit institution. Its activity is governed by the specific relevant rules of Act CXIII of 1996 on Home Savings and Loan Associations as well as related government decrees, and generally speaking the requirements laid down for credit institutions.

Core business activities:

- collection of housing deposits (mainly deposits from customers eligible for government grant);
- disbursement of loans for housing purposes (bridging and housing loans);
- investment on the capital market of the deposits not used for lending.

Our business cycle presumes permanent, long-term customer relations: after up to 16 years of deposit payments, the contractual relationship can be 29 years with a repayment period of up to 13 years depending on the product. This sets the Company apart on the market from the institutions offering shorter financial relationships.

Fundamenta-Lakáskassza Zrt. – market-leading home savings and loan association:

- on the market for deposit contracts it accounts for around 50% of the portfolio of contracts,
- in overall retail lending for housing purposes it commands a roughly 12-14% share in new loan disbursements, and
- it holds around 12-13% of retail lending for housing purposes.

Fundamenta-Lakáskassza Zrt. is not a member of a Hungarian financial group, so we follow an independent home savings and loan model, in which we examine every market cooperation and opportunity to reach our goals.

The owners of Fundamenta-Lakáskassza Zrt. are professional investors: German and Austrian home savings and loan associations along with Hungarian banks and insurance companies. Our owners know and understand the long-term workings of the home savings and loan model, their main goal is to ensure sustainable, stable operations and a high-level of customer service.

Fundamenta-Lakáskassza Zrt. enjoys high brand recognition and customer satisfaction. Building a housing ecosystem, our goal is to offer competitive products and a high service quality in all market segments for housing and saving for the future that are available for home savings and loan associations.

In 2019 Fundamenta-Lakáskassza Zrt. carried out no research and development.

11.2. Description of policies relating to environmental matters, social and employment aspects, respect for human rights as well as anti-corruption and bribery information for Fundamenta-Lakáskassza Zrt. and the results achieved

Environmental protection

Fundamenta-Lakáskassza Zrt is committed to reducing paper use, so it set the long-term strategic goal of extending digitalisation both in customer service and in internal processes. We made it possible to record our clients' personal identification documents digitally instead of photocopying them when concluding contracts and effective from 2020 digital recording is a compulsory practice. Through our eBanking system introduced in 2019, there is an ever-growing range of administrative tasks available in electronic or paper-free forms for our clients.

With our loan options offered for the installation of solar panel systems we support our clients' endeavours in covering the energy costs of their home through sustainable and environmentally-friendly solutions.

Respecting human rights

In the course of 2017 Fundamenta adopted its Human Rights Policy, which sets forth its commitment to respecting basic human rights in its operations.

In the spirit of all this, with our new customer service offices (opened in spring 2019) and our renewed website we enabled our customers living with disabilities to reach our services in 2018 more comfortably than before.

In our relationships with employees we broadened the opportunities for individual development, the regular information forums, and the regular feedback via the performance appraisal system.

Combating corruption and bribery

Fundamenta-Lakáskassza Zrt., Fundamenta-Lakáskassza Kft. and Fundamenta Értéklánc Kft. are fully committed to respecting the provisions of Hungarian and international laws to prevent corruption and bribery, observing a principle of ZERO TOLERANCE for all illegal conduct, and to this end take strict and efficient action.

Our policy comprises the following elements:

- Regulating contact with officials, complete ban on facilitating payments;
- Rules on outsourced activity;
- Provisions, rules and prohibitions on gifts and hospitality;
- Rules on donations, sponsoring and charity roles;
- Compliance-based due diligence for contracted partners, suppliers, experts and intermediaries;
- Code of Ethics and Conduct for those working in the network;

- Channel for reporting abuse, protection of whistle-blowers;
- Mandatory training for all staff;
- Regular reviews of policy, internal procedures and Code of Conduct.

During our activities we work in line with the relevant requirements of the owners and with due consideration of the anti-corruption policy.

11.3. Risks associated with the business relations, products and services of Fundamenta-Lakáskassza, management methods, with particular regard to the issues listed in point 2

The Company is a credit institution specialised in lending with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Company's executive bodies are committed to controlling its risk exposures to ensure that all of the risks assumed by Fundamenta do not jeopardise the stable operation of the credit institution in either the short or the long run. It shapes its risk assumption, risk management and control procedures in such a way that they support its secure operations.

The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Company's risk profile.

To this end, Fundamenta monitors, assesses and regularly reviews its risks, and if necessary, manages them. The monitored risks thus include credit risk, operational risk, market risk, lending stress risk, interest rate risk in the banking book, collective risk, liquidity risk, country and foreign exchange risk, settlement risk, strategy risks (including, beside collective risk, business model risk and the risk of deviating from business plans), business management risk, concentration risk and reputational risk, as well as audit and management risk.

All of the issues in point 2 are related to operational risks.

Identifying operational risks early and carrying out a detailed analysis help protect the Company against events impairing its good reputation, improve the quality of services, boost the external perception and rating of the Company, increase the risk awareness of staff, and most importantly, make it possible to avoid major future losses derived from operational risks.

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

The Strategic Risk Management Directorate is responsible for systemising and supervising all of the material operational risks. In this process, the goal is not to avoid risks but to manage them proactively, i.e. a controlled and deliberate approach to opportunities and risks.

In the spirit of risk awareness, and alongside the Strategic Risk Management Directorate, the Compliance Directorate and the Security Management Directorate take part in identifying, managing and regulating the risks mentioned in point 2.

Being a retail credit institution, the primary reputational risk factors for Fundamenta are managing customer relations, the reliability of intermediaries and the information they provide, as well as the quality of these relationships.

Customer complaints are managed based on years of practice and regulations, in compliance with applicable laws and supervisory authority expectations, with full consideration of consumer protection provisions. We apply Recommendation 14/2012 (XII.13) of the Supervisory authority for work-out companies on required consumer protection principles. We changed our processes where necessary, and these were incorporated into the relevant policies too.

11.4. Non-financial performance indicators material for business activities

- Contracts managed as of 31 December 2019: 844,000 deposit and loan contracts, with a contractual amount of almost HUF 3,724 billion.
- Savings quality (actual savings/expected savings, based on 2019 average): 86.1%.
- Total customer savings in 2019: HUF 145 billion.

Budapest, 11 February 2020

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Bernadett Tátrai	**Rainer Kaschel**
Chairwoman of the Board,	Member of the Board
Chief Executive Officer	