TAKARÉK MORTGAGE BANK CO. PLC.

GENERAL SHAREHOLDER'S MEETING

BUDAPEST

28 APRIL 2022

TAKARÉK JELZÁLOGBANK

NOTICE
ON CONVENING AN ANNUAL GENERAL MEETING

Takarék Mortgage Bank Co. Plc. (registered office: H-1117 Budapest, Magyar Tudósok körútja 9. G épület; company registration number: 01-10-043638; registered by the Company Registry Court of Budapest-Capital Regional Court; hereinafter referred to as Company), fulfilling its statutory obligation, hereby informs the shareholders and investors of the Company that on 28 March 2022, the Company's Board of Directors decided to convene an Annual General Meeting of the Company (hereinafter referred to as General Meeting).

The Board of Directors of the Company convenes the General Meeting as set out below:

Time and date of the General Meeting:
28 April 2022 (Thursday), 9.00 a.m.
Registration to the general meeting opens on 28 April 2022 (Thursday) at 8.00 a.m.

Location of the General Meeting:

H-1117 Budapest, Magyar Tudósok körútja 9. G. épület

Agenda of the General Meeting:

1. **Report by the Board of Directors regarding the Company's business activities, wealth, business policy and management in 2021, including the separate business report and separate financial statements as defined in the International Financial Reporting Standards ("IFRS") for 2021, decision on the use of earnings after tax; the report of the Supervisory Board on the Company's 2021 separate financial statements and separate business report as defined in the IFRS; the report of the Audit Committee on the Company's 2021 separate financial statements and separate business report as defined in the IFRS; the report of the accountant on the Company's 2021 separate financial statements and separate business report as defined in the IFRS;**

2. **Decision for senior officers concerning the granting of indemnification establishing the compliance of their management activities in the business year of 2021**

3. **Election and determination of the remuneration of the Company's auditor**

4. **Approving the Responsible Corporate Governance Report**

5. **Granting authorisation to the Board of Directors to acquire treasury shares**

6. **Approval of the Supervisory Board's amended rules of procedure**

7. **Decision on the election of the members and the Chairman of the Board of Directors of the Company**

8. **Decision on the election of the members and the Chairman of the Supervisory Board of the Company**

9. **Decision on the election of the members of the Audit Committee of the Company**

10. **Determining the remuneration of the Members of the Board of Directors and the Supervisory Board**

11. **Advisory vote on remuneration policy subject to Act LXVII of 2019 on encouraging long-term shareholder engagement and amending certain acts for the purpose of legal harmonisation**

12. Advisory vote on the Remuneration Report on 2021

13. Others

28 March 2022

Manner of holding the General Meeting

The General Meeting shall be held with the direct participation of the shareholders.

Conditions of participation in the General Meeting and the exercise of voting rights

A According to Clause 3.1.24 of the Statutes of the Company, each series "A" ordinary share with a nominal value of HUF 100 (one hundred forints) entitles its holder to one vote at the general meeting. As a general rule, series "B" dividend preference shares with a nominal value of HUF 100 do not provide voting rights, however, if the Company does not pay dividends in a given business year, the holders of dividend preference shares are entitled to voting rights equivalent to the holders of series "A" ordinary shares, which right they may exercise without limitation until the acceptance of the annual accounts for the next business year. Given that the Company did not pay dividends for the business year 2020, each series "B" dividend preference share entitles its holder to one vote. Each series "C" ordinary share with a nominal value of HUF 1,000 (one thousand forints) entitles its holder to ten votes.

B A shareholder or a nominee shareholder defined in Sections 151–155 of the Capital Market Act may attend the General Meeting of the Company, who has been registered in the share register at the time of the General Meeting Closing of the Share Register, in accordance with the result of shareholder identification.

C The Company requests KELER Zrt. to identify the shareholders by the time of the General Meeting as a corporate event. The date for the shareholder identification related to the General Meeting shall be **21 April 2022.** The rules of shareholder identification are set out in the General Operating Rules of KELER Zrt.

D At 6.00 (six) p.m. Budapest time on the second business day prior to the General Meeting, the Company shall delete all data in the share register in effect at the time of shareholder identification and simultaneously register therein data in conformity with the result of shareholder compliance, and close the same together with the data of shareholder compliance (**"General Meeting Closing of the Share Register"**).

The date of the General Meeting Closing of the Share Register: 26 April 2022, 6.00 p.m.

Thereafter, data relating to the shareholding of a shareholder may be registered in the share register on the business day following the General Meeting at the earliest.

E Shareholders may also exercise rights related to the General Meeting by way of representatives. A member of the Board of Directors, Supervisory Board, the auditor and the trustee may not be authorised. Shareholders may also authorise senior employees of the Company to exercise General Meeting related rights. Authorisation for representation is valid for one General Meeting or for the time determined in the authorisation, but for up to twelve (12) months. The validity of authorised representation shall extend to the resumption of adjourned General Meetings and General Meetings reconvened as a result of a lacking quorum. Authorisation shall be issued as a public instrument or private document of full probative force and submitted to the Company at the place and time specified in the General Meeting notice. The authorisation given by the nominee shareholder shall state that the representative acts in the capacity of nominee shareholder.

For shareholders that are not natural persons, the right of representation of the signer of the power of attorney or the person(s) acting on behalf of the non-natural person shareholder at the General Meeting must be certified by presenting a copy or notary-public-attested copy of a certificate issued by a public register (e.g. extract from the company registry) and an authentic declaration lending powers to sign on behalf of the company (specimen signature attested by a notary public) or a sample signature countersigned by an attorney-at-law. If the document(s) relating to the right of representation were issued in a language other than Hungarian, a certified Hungarian translation must also be attached to the instrument. If the power of attorney was issued abroad, its form must be in compliance with the laws relating to the authentication or legislation of instruments issued abroad.

F Shareholders have a right to information concerning matters on the General Meeting's agenda. Accordingly, upon the shareholder's written request submitted at least eight days before the date of the General Meeting, the Board of Directors shall provide the information necessary for discussing the given item on the agenda of the General Meeting three days before the date of the same. The Board of Directors may bind the exercise of the above right to information to a written non-disclosure declaration issued by the shareholder requesting information. The Board of Directors may deny the provision of information and access to documents if this would breach the Company's business, bank, securities or other such secrets, if the person requesting information abuses his/her right or fails to provide a non-disclosure declaration notwithstanding a notice. If the person requesting information considers the denial of information to be unreasonable, he/she may request the court of registration to oblige the Company to provide such information.

G The Company shall allow all shareholders attending the General Meeting to exercise the right to information, commenting and to motion, provided that exercise of such rights does not prevent the regular and proper operation of the General Meeting. To ensure the exercise of shareholder rights defined hereunder, the chairperson of the General Meeting shall give the floor to shareholders at the General Meeting, under condition that the chairperson may limit speaking time, interrupt the speaker, in particular, upon deviation from the topic, and – when several persons are speaking simultaneously – determine the order of speeches to ensure the regular and proper operation of the General Meeting. The Company has five (5) business days available from the date of the General Meeting to answer questions raised at the General Meeting and not answered to the satisfaction of shareholders.

H If the conditions of participation in the General Meeting and exercise of the voting rights are fulfilled, the shareholder or their representative may request an electronic or other device for the casting of votes after certifying their identity and signing the attendance sheet.

Quorum;
place and time of the repeated General Meeting in the case there is a lack of quorum at the General Meeting

According to Clause 3.1.9 of the Statutes, the General Meeting has a quorum if shareholders representing more than half of all shares providing voting rights are present. If the General Meeting does not have a quorum, the Company shall hold the repeated general meeting – convened via this Notice – **at the site of the original General Meeting, on 9 May 2022 (Monday) at 10.00 a.m.** The repeated general meeting shall have a quorum in relation to all matters included in the original agenda without regard to the number of shareholders attending. Attendance of the repeated General Meeting is subject to registration, which opens on **9 May 2022 (Monday) at 8.00 a.m.**

Publication of presentations and proposed resolutions for the General Meeting

In accordance with the provisions of the Articles of Association relating to the publication of the announcements of the Company, the Board of Directors of the Company shall publish the summaries relating to the number of shares and voting rights as at the time of convening of the General Meeting (including separate summaries for each share class), the summary of the proposals relating to the items on the agenda, the related reports and proposed resolutions of the Supervisory Board and the forms to be used for voting by proxy (unless already sent to the shareholders directly) on the Company's official website (www.takarekjzb.hu), the electronic announcement forum operated by the Central Bank of Hungary (www.kozzetetelek.hu) and the official website of the Budapest Stock Exchange (www.bet.hu) at least 21 (twenty-one) days prior to the General Meeting, in the Hungarian and English language. After that, the written proposals and draft resolutions related to the matters included in the agenda of the General Meeting will also be available at the registered office of the Company.

Takarék Mortgage Bank Co Plc.

PROPOSAL

TO AGENDA ITEM NO. 1.

●

For the year 2021

Separate financial statements in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European union

a. **Approving business report**
b. **Approving financial statement**
c. **Decision on the appropriation of after-tax profits**

PROPOSED RESOLUTION

a) The General Meeting approves the Company's Separate Business Report for 2021 conducted as defined in the International Accounting Standards ("IFRS") adopted by the European Union.

b) The General Meeting approves the Company's statements for 2021 as defined in the International Accounting Standards ("IFRS") adopted by the European Union (Separate Comprehensive Income Statement, Separate Comprehensive Statement of Other Income, Separate Statement of Financial Position, Separate Statement of Sash Flow, Separate Statement of Changes in Equity, Notes).

The General Meeting determines that

- the balance sheet total of the Company is HUF **665,015 million**
- the profit after tax of the Company is HUF **2,745 million**.

c) The General Meeting has adopted the following resolutions on profit for the year in question as in the followings:

- dividends will not be paid on Series "A" shares for the year 2021.
- dividends will not be paid on Series "B" shares for the year 2021.
- dividends will not be paid on Series "C" shares for the year 2021.
- the Company places the profit for the year 2021 in profit reserves and creates a general reserve of HUF **275 million** pursuant to legal rule.

TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2021

Budapest, April 5, 2022

dr. Gyula László Nagy
Chief Executive Officer

Attila Mészáros
Deputy CEO

Takarék Jelzálogbank Nyrt.
TAKARÉK JELZÁLOGBANK
1117 Budapest, Magyar Tudósok körútja 9. G. ép.

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

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

The Bank provided mortgage banking services through its Head Office and regional representative offices located in the Republic of Hungary. The Bank deals with refinancing mortgage loans provided by commercial banks to their customers and issuing mortgage bonds to raise funds for its refinancing activity.

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

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

The ownership structure of Takarék Mortgage Bank Plc at the end of 2021 and 2020

Shareholder	December 31, 2021		December 31, 2020	
	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
„A" shares listed on BSE				
Domestic institutional investors	53.28	57,801,776	52.41	56,859,406
Foreign institutional investors	0.01	6,343	0.03	32,298
Domestic private investors	2.82	3,057,946	3.68	3,979,348
Foreign private investors	0.01	8,621	0.01	11,760
Employees, management	0.00	0	0.00	0
Repurchased shares	0.23	253,601	0.23	253,601
Owner forming part of state household	4.45	4,832,225	4.45	4,832,225
Other investors	0.04	39,498	0.03	31,372
Series „A" total	60.84	66,000,010	60.84	66,000,010
„B" shares not listed on BSE				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
Series „B" total	13.05	14,163,430	13.05	14,163,430
„C" shares not listed on BSE				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Series „C" total	26.11	2,832,686	26.11	2,832,686
Total	**100.0**	**82,996,126**	**100.0**	**82,996,126**

The Bank founded new subsidiaries, among them the Takarék Commercial Bank Ltd. (henceforth "the Commercial Bank").

In September 2015 the Bank and the Commercial Bank (under the Bank's majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ), the latter created by Act CXXXV of 2013 on the integration of cooperative credit institutions and the modification of select economic legislation. In parallel, it also became the member of the Guarantee Community of Cooperative Credit Institutions.

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

In the fourth quarter of 2016 the share of the Bank of Hungarian Cooperatives Ltd. (the central bank of the integration of cooperative credit institutions, hereafter referred to as MTB) and the cooperative credit institutions increased to more than 68%.

The integration process of the Bank and the Commercial Bank into the Integration of Cooperative Credit Institutions (today known as the Central Organization of Integrated Credit Institutions, i.e. COICI) that started in the autumn of 2015 was finished in 2017. Subsequently, the restructuring of these companies – to fit into the strategy of the broader Integration – started that year.

As a first step, the Bank was reclassified as a simple profile mortgage bank, with only issuance and refinancing functions remaining, while all other human resources and capacities were transferred to the MTB and the Commercial Bank.

From April 2018 the Bank makes no more new loan disbursements. Previously made credit contracts are kept in the Bank's portfolio until their expiry, but the active functions of the Bank remained solely those that relate to classic mortgage bank functions.

The general assembly of the Company on April 27, 2018 made a decision over the changing of the name of the Bank. It is from June 25, 2018 that the Company's name is Takarék Mortgage Bank Plc.

In the revised 5-year strategy of the Takarék Group (accepted on November 30, 2018 by MTB's general meeting) the Bank's principal role remained unchanged: it solely performs classic mortgage bank activities.

On October 29, 2019, the Bank's 51% ownership share in the Commercial Bank was fully sold to the MTB, and hence for the first time in 2020 the Bank prepared no consolidated annual report. The owners of the Bank – Magyar Bankholding Zrt. (henceforth MBH) as the ultimate parent company as well as MTB and MTBH Ltd. – will include the Bank in their scope of consolidation. The consolidated annual reports will cover all companies that are part of the consolidation group on accounting terms.

The credit rating of mortgage bonds issued by the Bank is performed by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank's mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. No change has taken place in the rating since then.

From December 15, 2020 the effective owner rights are exercised by MBH, since by having the Hungarian central bank's (MNB) license, the majority owners of Budapest Bank Zrt. (BB), MKB Bank Nyrt. (MKB) and MTB transferred their shares into the joint holding company. This gave rise to the birth of Hungary's second largest banking group, in which the Hungarian state through Corvinus International Investment Ltd. has a 30.35% share, the direct owners of MKB have a 31.96% share, whereas the former direct owners of MTB have a 37.69% share. The management of the MBH has already been appointed and the elaboration process of the new group's 5-year strategy has started.

On December 30, 2020 MTB published in official publication platforms its mandatory public purchasing bid for all shares issued by the Bank, and submitted its application for a permit to the Hungarian central bank. Based on the central bank's permit the period for the purchase offer started on January 19, 2021, while the deadline for the acceptance of the bid was February 17, 2021. MTB accepted all the shares that were offered and declared the mandatory public purchasing bid process successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of the MTB in the Bank increased from 86.20% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

The bid was made after the majority owners of BB, MKB and MTB transferred their shares to the MBH on December 15, 2020.

In October 2021 MBH transferred MTB to MTBH Ltd., which will merge with MKB and Budapest Bank on March 31, 2022. MTB (Takarék Group) will be a subsidiary of the merged bank, which is to be called MKB.

On December 15, 2021 the main bodies of MKB, Budapest Bank and MTBH Ltd. (which is the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of MBH, namely MKB and Budapest Bank as well as MTBH Ltd. is going to merge on March 31, 2022. During this process Budapest Bank merges into MKB, while MTB (Takarék Group) becomes a subsidiary of the merged bank. Takarékbank will join the merged bank in the second quarter of 2023. From March 31, 2022 the merged bank becomes the governing body of the Group and will temporarily operate under the name of MKB Plc. The unified brand for the new banking group will be introduced in early-2023.

2 THE MACROECONOMIC ENVIRONMENT IN 2021

2.1 THE HUNGARIAN ECONOMY IN 2021[1]

Major macroeconomic indicators	2019	2020	2021
Real GDP growth	4.6%	(4.7)%	7.1%
Average annual rate of inflation	3.3%	3.3%	5.1%
Average annual rate of unemployment	3.3%	4.1%	4.1%
Gross wage growth	11.4%	9.7%	8.5%
ESA-based budget balance (relative to GDP)*	(2.1)%	(8.1)%	(7.4)%
Gross public debt (end-of-year, relative to GDP*)	65.5%	80.0%	78.2%
Net external financing capacity (relative to GDP)*	1.2%	0.4%	(1.4)%
Base rate (end-of-year)	0.90%	0.60%	2.40%
Rate on the central bank's one-week deposit facility (end-of –year)	-	0.75%	4.00%
EUR-HUF exchange rate (end-of-year)	330.52	365.13	369.00

**Projection for 2021, final for 2019, 2020*
Sources: KSH, MNB, NGM

By 2021 the productive sectors and most of the services sectors of the Hungarian economy adapted well to the constraints that were introduced in the wake of the coronavirus pandemic, hence the recovery, which already began in the second half of 2020 continued at a fast rate in the first half of 2021. This, evidently, continued to enjoy further support from the economic measures of both the government and the central bank aimed at boosting investments and preserving jobs, at the same time foreign demand remained supportive for growth as well. This situation changed somewhat in the second half of 2021: the supply side was unable to keep up with the pace of the global demand boom after the depletion of inventories leading to severe shortages in numerous manufacturing sectors (the most notable of those were shortages in semiconductors), the impacts of which were also felt in the most important industries of the Hungarian economy, primarily in the automitve sector. The mismatch in the supply-demand balance was accompanied by marked price increses, which, moreover, spread to a wide range of products and also had a slowing effect on the rate of economic growth. Hence, growth dynamics markedly decelerated in the third quarter. However, supported by major additional fiscal expenditures growth intensified in the fourth quarter again, and on annual average GDP finally increased by 7.1% in 2021.

On top of the externally originating price pressures due to the supply-demand mismatch, the fast pace of the catching up of wages also contributed to higher inflation in Hungary, hence CPI inflation rose above the upper edge of the inflation tolerance band as early as March and it did not return there in the rest of the year. What's more, core inflation, which captures the underlying inflationary processes, also broke out of the tolerance band in the second half of the year.

On annual average consumer prices increased by 5.1% in 2021, but the 12-month rate of inflation even surpassed 7% at the end of the year.

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

From around the middle of the year the central bank started fighting against rising inflation actively by raising the policy rate and gradually withdrawing its liquidity boosting monetary tools and thus prevent from the forming of second-round inflationary impacts. Beyond tightening interest rate conditions the central bank discontinued its Funds for Growth Scheme when its budget was depleted, it stopped its long-term refinancing operations (extending long-term covered loans to the credit institutions), it first downsized and at the end of the year it finished its government securities purchase programme, neither did it extend the budget allocated for purchases in the frame of the Bond Funding for Growth Scheme. In order to be able to react more flexibly to higher volatility on money markets it decoupled the rate on its one-week deposit facility (its main sterilisation instrument) from the base rate and set it by weekly frequency, before the weekly tenders took place. Since the central bank accepted credit institutions' free liquidity without any upper limit, the rate of this tool has become the effective policy rate, while the base rate, at least temporarily, lost its significance for the markets, although it remained the main instrument to demonstrate the central bank's anti-inflationary stance. Eventually, the base rate was raised by an altogether 180bps and stood at 2.4% at the end of 2021, whereas the rate on the one-week deposit facility increased by 325bps to stand at 4% at the end of last year. In fact, the government also made steps to slow down inflation: it declared an upper limit on the retail sale of fuel prices in November.

In order to maintain the dynamics of economic recovery fiscal policy remained expansive in 2021: the cash-flow based deficit of the central budget amounted to HUF 5,100 billion (following HUF 5,500 billion in 2020), which in ESA-terms could translate to 7.5% of GDP. By issuing a higher amount of Eurobonds than originally planned, this deficit, similarly to the previous year, was overfinanced by the State Debt Management Agency (AKK) in 2021, hence public debt moderated by only a small amount relative to GDP: from 80% at the end of 2020 it decreased to 78%. Since economic growth was driven by domestic demand, which has high import content, external balances clearly deteriorated in 2021: the net external financing capacity (the combined balance of the current and the capital account) exhibited a deficit of around 1.4% of GDP. The overfinancing of the budget deficit by Eurobonds also led to rising net external debt relative to GDP and it drifted further away from the single-digit figure it already achieved back in 2019.

The number of newly built dwellings in 2021 decreased by almost 10% compared to 2020, but the number of new building permits and simplified notifications for the construction of new dwellings increased by well over 30% compared to the preceding year. The fall in the number of newly built dwellings did not impact Budapest (the capital city actually saw a rise of 11%), but cities (-40%) and villages (-45%) were hit hard. Yet, the growth in the number of bulding permits was strongest in the latter (around 50%), while Budapest saw a decrease of 14% compared to 2020. Following a temporary fall in 2020, house prices started increasing rapidly again in 2021 in part due to rises in costs (the cost of both building materials and construction work markedly increased), but the abundance of housing loans (for home creation and home renovation purposes) at very favourable conditions, coupled with the rather rigid supply side also resulted in marked price increases. In the first three quarters of 2021, nominal house prices increased by 16.5% compared to the same period of 2020. The extent of price rises were smaller in Budapest (around 8%), but stronger in cities and villages (18% and 20% respectively). The rate of house price inflation may have accelerated further in the fourth quarter of the year.

2.2 THE BANKING SECTOR IN 2021[2]

In the first half of 2021 credit institutions still had the opportunity to participate in the liquidity boosting programs introduced by the central bank in 2020 to mitigate the economic and financial impacts of the pandemic, while apart from the preferential loan programs and development funds provided by the central bank and the government, the robust growth in the stock of the sectors' client loans and client savings was also supported by the payment moratorium, which was maintained at broadly unchanged conditions up until the end of October 2021. In terms of profitability, however, the most important factor was the very positive development of the macroeconomic situation, because based on the improving macroeconomic parameters, the reversal of the impairment and provisioning process that took place due to significant uncertainty in 2020, could commence in 2021. Helped by this, the domestic banking sector may have reached 2.5 times higher after-tax profit (around HUF 520-530 billion) than in 2020 (HUF 207 billion) even despite the continued increase in nominal operating costs. With this, the banking sector realized around 10% return on equity, although a substantial amount of the improvement was due to developments and processes that are not lasting in their nature, and will not recur beyond 2021

The aggregate total assets of the banking sector amounted to HUF 62,000 billion by the end of 2021, which is 17% higher than the preceding year's HUF 53,056 billion, but compared to the end of 2019, the last year before the pandemic, the size of credit institutions increased by no less than 44%. The stock of gross client loans (apart from loans extended to the central government) increased by more than 12% in 2021 and reached HUF 25,200 billion by the end of the year. Within this, the stock household loans expanded by 15.6%, while that of non-financial corporate clients increased by 10.9%. The quality of the loan portfolio, which uninterruptedly improved until 2020 did not continue to improve further in 2021, but neither did it worsen significantly till the end of the year.

The stock of client deposits increased by 17% in 2021 and its volume jumped above HUF 35,000 billion. 35% of this was owned by households, which increased their stock by 14%, whereas 41.5% was owned by the non-financial corporate sector, whose deposits increased by more than 20% in 2021.

2.2.1 New mortgage loan contracts to households

Two new credit lines were introduced in 2021 that gave strong momentum to new mortgage loan contract volumes. The Subsidized Rate Home Renovation Loans were introduced in February, but disbursements gathered speed from March. Mortgage loans extended within the frame of the Green Home Programme were put on sale from October. Assisted by other family support schemes these resulted in an outstanding growth in the volume of new mortgage loan contracts: the HUF 1,401 billion volume in 2021 exceeded 2020's HUF 1,008 billion by 39%. Within this proper housing loans exhibited a growth of 40.5%, whereas home equity loans exhibited 22.7% growth compared to 2020's figures.

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

2.2.2 The outstanding stock of household mortgage loans

According to data published by the central bank the stock of household mortgage loans amounted to HUF 5,412 billion on December 31, 2021. The annual change in the stock is HUF 565 billion (+11.7%) compared to end-2020's HUF 4,847 billion, but a marked share of this growth is attributed to the fact that 45-50% of the portfolio were shielded by the payment moratorium introduced in the middle of March in 2020 and still existing alongside almost unchanged conditions up to the end of October 2021, meaning that on this part of the portfolio there was no principal amortization. The stock of housing loans at the end of 2021 was HUF 4,593 billion as opposed to HUF 3,995 billion at the end of 2020, which implies 15% growth. The stock of home equity loans, however, decreased even as the moratorium stood and new contracts were 23% higher than a year before: the HUF 819 billion volume at the end of 2021 was 3.8% (HUF 33 billion) short of the HUF 852 billion prevailing at the end of 2020. The share of foreign exchange denominated loans within the portfolio were hardly 0.1% at the end of 2021.

2.2.3 The market of mortgage bonds

In the course of 2021 the face value of the stock of mortgage bonds issued by the five mortgage banks residing in Hungary decreased by around 2% and thus the end-year stock of mortgage bonds outstanding was HUF 1,616 billion at face value. The most important factors behind this decrease are that the central bank already stopped purchasing mortgage bonds in its second mortgage bond purchase programme (introduced after the appearance of the coronavirus pandemic) in late 2020, that mortgage based financing that qualifies green can be taken into account favourably when calculating the mortgage financing adequacy ratio (MFAR), moreover, the limit of this indicator was not modified in 2021, October 2023 was announced as the date for its upcoming increase by the central bank. In the context of the total outstanding stock the Takarék Mortgage Bank Plc. preserved its 20% market share, based on which it is the second largest company in this market segment.

3 REPORT ON THE BANK'S BUSINESS AND FINANCIAL RESULTS

Market activity on the entire domestic mortgage bond market markedly moderated temporarily in 2021, since the central bank terminated its mortgage bond purchase programme in November, 2020. At the same time, however, the central bank indicated its intention to launch a green mortgage bond purchase programme in the future. This finally was launched on August 2, 2021 with an initial HUF 200 billion budget, and it was certainly an important development from the aspect of the Bank's business and financial environment.

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

The total assets of the Bank based on non-consolidated figures according to IFRS increased by 8.6% (i.e. by HUF 52.9 billion) in 2021, and by the end of the year its volume reached HUF 665.0 billion. Pre-tax profit, up 40.7% from 2020, amounted to HUF 2,737 million, while profit for the year reached HUF 2,745 million. The total comprehensive income for 2021 was HUF 2,252 million, significantly up from the preceding year's HUF 1,641 million.

Major indicators (HUF million)	December 31, 2021	December 31, 2020	Change (%)	Change (HUF million)
Balance sheet total	665,015	612,141	8.6%	52,874
Financial assets valued at AC and mandatorily at FVTPL*	634,964	573,880	10.6%	61,084
o/w gross loans	374,357	337,337	11.0%	37,020
o/w debt-type securities	250,536	229,366	9.2%	21,170
Financial liabilities measured at AC	585,534	538,318	8.8%	47,216
o/w debt-type securities issued	321,714	322,551	(0.3)%	(837)
Equity	68,936	66,684	3.4%	2,252
Profit/Loss before tax	2,737	1,945	40.7%	792
Profit for the year	2,745	2,373	15.7%	372
Total comprehensive income	2,252	1,641	37.2%	611
ROAA (return on average assets)	0.4%	0.5%	-	(0.1)ppt
ROAE (return on average equity)	4.0%	3.6%	.	0.4ppt

* AC: amortized costs; FVTPL: fair value through profit and loss

3.2 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, and uses the funds thus required for refinancing the mortgage debt portfolios of partners within the Bankholding Group and also that of external partners. Within the Takarék Group, the Bank is a special entity: it is able to raise funds in the form of mortgage bond or uncovered bond issuances either at domestic or external financial markets. Due to the latter, it is able to secure foreign currency financing if needed.

In its strategy the Bank puts special emphasis on cooperating with external partners. It strives to become an attractive alternative for banking groups that are involved in extending mortgage loans but do not have their own mortgage bank license and thus need refinancing.

The stock of refinancing loans extended by the Bank went up by 15.5% (or HUF 44.6 billion) in 2021 and their volume at the end of the year was HUF 332.0 billion.

3.3 LENDING TO CLIENTS

The Bank discontinued extending new loans as of the second quarter of 2018, lending activity is provided by Takarékbank, yet, the already existing portfolio remains in the Bank's books until full expiry. From the second quarter of 2018 the Bank is only active in the refinancing segment, and thus the stock of its still existing client loans are gradually reduced due to natural amortization and successful workout process.

The stock of the Bank's earlier disbursed loans – in line with the above – continued to decrease, sinking to HUF 42.4 billion at the end of 2021, down 15.0% from end-2020's HUF 49.9 billion. 98.8% of this stock are household loans, the volume of which decreased by HUF 7.6 billion compared to the prior year. The stock of corporate loans amounted to HUF 0.5 billlion at the end of 2021. The bulk of the household loan portfolio are mortgage loans, which implies 0.7% market share for the Bank in this segment (down from 0.9% back in 2020).

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's stock of gross credit amounted to HUF 364.6 billion at the end of the year. The value of contingent liabilities on December 31, 2021 was HUF 24.4 billion. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 389.0 billion. The full gross exposure to credit risk (including securities) amounted to HUF 676.2 billion at the end of 2021.

Claims on clients amounted to HUF 32.67 billion (this is 8.73% of the portfolio without swaps), moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 0.13 billion (0.04%) at the end of 2021. Of these, 603 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.17 billion in claims with HUF 0.37 billion in impairments. HUF 30.51 billion in claims and HUF 0.13 billion in commitments was classified as Stage 1 and Stage 2 categories, with HUF 0.67 billion in impairments and provisions.

The stock of refinancing loans was HUF 332.0 billion (88.64% of the portfolio without swaps), with a minimal HUF 8.9 million in impairments.

In the interbank market the Bank had placements of HUF 0.2 billion in the form of sight deposits.

The Bank has ownership interest in three entities: the MTB, the Takarék United Cooperatives (TESZ) and the COICI. The nominal value of these investments is HUF 0.01 billion

The share of problem free (Stage 1 and Stage 2) loans was 93.38% as of December 31, 2021, consequently the share of Stage 3 loans was 6.62%.

At average impairment level there was an increase both in the entire (excl. swaps) portfolio (0.28%), and in the loan portfolio (3.19%) compared to end-2020.

3.5 SECURITIES ISSUES

In twelve public auctions last year the Bank raised HUF 24.5 billion in new funds by issuing mortgage bonds. Uncovered bonds were not issued in 2021. Developments in the domestic mortgage bond market were markedly influenced by the Green Mortgage Bond Purchase Programme (GMBPP), launched by the central bank on August 2, 2021 with an initial budget of HUF 200 billion. Since the central bank finished purchasing mortgage bonds on the primary market in the context of its second mortgage bond purchase programme in the middle of November 2020, but indicated its intention to launch a green mortgage bond purchase programme at a later date, activity on the entire domestic mortgage bond market – in lack of investors that can be taken for granted – substantially declined and resumed only after the launch of the green mortgage bond purchase programme was announced.

The Bank nonetheless continued to execute its published issuance strategy, keeping auctions practically each month offering its mortgage bonds series maturing in 2026, 2031 and 2036 to investors. It offered only small amounts at individual auctions in order to decrease and stabilize yield premia.

In October 2021, upon meeting the conditions for participation in the GMBPP, the Bank issued its first green mortgage bond series, the TZJ27NF1, selling HUF 5 billion. Supported by the central bank's purchases the average auction yield on the 6-year paper bearing a 3.50% coupon finally became 3.58%, which is a 15bp premium above government bonds with similar maturity.

Apart from the GMBPP the Bank also participates in the central bank's mortgage bond renewal program. Based on the Monetary Council's decision on July 6, 2021 in order to preserve stability on the market and decrease renewal risks the Bank purchases mortgage bonds to renew those series in its portfolio that expire in 12 months (Renewable Mortgage Bonds). It was also in this program that the Bank announced the issuance of the second tranche of its TJ26NF02 series in November 2021 and sold a total of HUF 7 billion.

Due to the above transactions HUF 4.5 billion, HUF 6 billion, HUF 2 billion and HUF 12 billion mortgage bonds (at face value) were issued by the Bank in the respective quarters of 2021. These were exclusively fixed rate bonds.

Also in 2021 the Bank made an EUR 500 thousand repurchase from its FJ22ZF01 series denominated in Euro. One mortgage bond series expired last year; this was the fixed rate FJ21NF01 series close to HUF 21 billion in volume.

Influenced by the above transactions, the total face value of mortgage bonds issued by the Bank and still in circulation was HUF 323 billion at the end of 2021.

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

The net value of ordinary collateral covering mortgage bonds issued by the Bank was HUF 447.1 billion as of December 31, 2021, 16.7% above the figure prevailing at December 31, 2020 (HUF 383.1 billion) mostly due to the dynamic increase of the stock of refinancing loans. The increase in ordinary collateral as well as the moderate level of net mortgage bond issuances both contributed to the fact that at the end of the third and fourth quarters the stock of assets involved as supplementary collateral was zero.

Value of mortgage bonds and assets involved as collateral

HUF million	December 31, 2021	December 31, 2020	Change
Outstanding mortgage bonds in circulation			
Face value	323,019	319,540	1.1%
Interest	46,377	46,389	0.0%
Total	**369,396**	**365,929**	**0.95%**
Value of ordinary collateral			
Principal	348,868	311,882	11.9%
Interest	98,269	71,314	37.8%
Total	**447,137**	**383,196**	**16.7%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	-	33,096	-
Mortgage bonds	-	4,662	-
Total	**-**	**37,758**	**-**

As of 31 December 2021, the present value of ordinary collateral was HUF 335.6 billion and the present value of mortgage bonds was HUF 304.8 billion, thus the present value of collateral amounted to 110.09% of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage bonds in circulation was 108.00%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 211.89% as of December 31, 2021.

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

In order to mitigate the negative economic and financial impacts of money market turbulences caused by the coronavirus pandemic the MNB announced the introduction of long-term covered refinancing facility at fixed interest rates on March 24, 2020 and kept weekly tenders therefter. It started to gradually phase out the Programme from January 2021 by reducing the fresh liquidity made available, until the programme was finally terminated in June. The Bank, taking on an active role in these tenders, was successful in building favourably priced 3- and 5-year loans into its long-term liabilities. In parallel, the stock of its purchased securities also went up, since part of the funds acquired in the LTRO was devoted to this goal. All this had a major influence on the Bank's business and financial activities, its balance sheet structure and its profit.

As of 31 December 2021, the Bank's balance sheet total according to non-consolidated IFRS figures amounted to HUF 665.0 billion, 8.6% above the end-2020 figure of HUF 612.1 billion.

Balance sheet items (HUF million)	December 31, 2021	December 31, 2020	Change (%)	Change (HUF million)
Assets				
Cash, cash balances at central banks and other demand deposits	229	1,499	(84.7)%	(1,270)
Financial assets held for trading	2,359	103	-	2,256
Financial assets at fair value through other comprehensive income	26,242	34,889	(24.8)%	(8,647)
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	634,964	573,880	10.6%	61,084
Derivatives – Hedge accounting	-	926	-	-926
Tangible assets	95	125	(24.0)%	(30)
Intangible assets	203	208	(2.4)%	(5)
Tax assets	512	348	47.1%	164
Other assets	411	163	152.1%	248
Total assets	**665,015**	**612,141**	**8.6%**	**52,874**
Liabilities				
Financial liabilities held for trading	2,309	88	-	2,221
Financial liabilities designated at fair value through profit or loss	6,121	6,484	(5.6)%	(363)
Financial liabilities measured at amortised cost	585,534	538,318	8.8%	47,216
Derivatives – Hedge accounting	1,112	284	-	828
Provisions	28	116	(75.9)%	(88)
Tax liabilities	147	4	-	(143)
Other liabilities	828	163	-	665
Total liabilities	**596,079**	**545,457**	**9.3%**	**50,622**
Equity				
Share capital	10,849	10,849	0.0%	0
Share premium	27,926	27,926	0.0%	0
Accumulated other comprehensive (loss)/income	(233)	260	-	(493)
Retained earnings	26,417	24,319	8.6%	2,098
Other reserves	1,439	1,164	23.6%	275
Treasury shares(-)	(207)	(207)	0.0%	0
Profit for the year	2,745	2,373	15.7%	372
Total equity	**68,936**	**66,684**	**3.4%**	**2,252**
Total liabilities and equity	665,015	612,141	8.6%	52,874

3.6.1 Financial assets at fair value through other comprehensive income

The value of financial assets at fair value through other comprehensive income was HUF 26.2 billion at the end of 2020, 24.8% lower than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

Within this class of assets there was a rearrangement in the stock of debt-type securities between 2020 and 2021. As a consequence, the stock of government bonds decreased by 88.7% compared to the end of the preceding year (down to HUF 3.6 billion from HUF 31.9 billion). Bonds of credit institutions, which amounted to HUF 3 billion at the end of 2020 reduced to zero. At the same time, however, the stock of discount Treasury bills increased by HUF 22.6 billion.

3.6.2 Financial assets valued at amortized costs costs and non-trading financial assets mandatorily at fair value through profit or loss

The volume of financial assets valued at amortized costs increased almost by 10.6% in 2021, thus the volume amounted to HUF 635.0 billion by the end of the period. The gross stock of debt-type securities within this increased by 9.2% and stood at HUF 250.5 billion at the end of the year. 91% of the total securities portfolio is made up of government bonds, the stock of which was HUF 227.9 billion at the end of 2021.

Within this class of assets the other major component is the stock of gross loans. This increased by 11% in the course of 2021, rising to HUF 374.4 billion by the end of the year.

The stock of interbank deposits and claims on central bank increased from HUF 7.2 to HUF 10.8 billion, which is 48.6% increas in one year.

3.6.3 Financial liabilities valued at amortized costs

Financial liabilities valued at amortized costs take up 88% of the Bank's total liabilities. Their volume at the end of 2021 was 8.8% higher than a year before, thus reaching HUF 585.5 billion. Within these liabilities it is debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share (54.9%). The balance sheet value of mortgage bonds in circulation was HUF 321.7 billion at the end of 2021, down by a marginal 0.3% from 2020. Yet, in the course of 2021 the stock of debt also increased significantly, reflecting the growth in long-term fixed loans from the MNB (through LTRO).

3.6.4 Equity, capital adequacy

Shareholders' equity amounted to HUF 68.9 billion at the end of 2021, up HUF 2.3 billion (or 3.4%) from the end of 2020.

The prudential requirement on capital adequacy should be interpreted in Takarék Group's context. The Group level capital adequacy requirement was met at the end of 2021.

3.6.5 Off balance sheet items

The value of off balance sheet contingent liabilities was HUF 24.4 billion at the end of 2021, 10.3% higher than a year before. It entirely consisted of the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners, which at the end of 2020 stood at only HUF 22.1 billion.

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

P&L items (HUF million)	2021	2020	Change (%)	Change (HUF million)
Interest income	14,704	11,449	28.4%	3,255
Interest expense	(10,456)	(8,237)	26.9%	(2,219)
Net interest income	**4,248**	**3,212**	**32.3%**	**1,036**
Fee and commission income	589	688	(14.4)%	(99)
Fee and commission expense	(620)	(590)	5.1%	(30)
Net fee and commission income	**(31)**	**98**	**(131.6)%**	**(129)**
Profit/(Loss) from foreign exchange transactions	-	100	-	(100)
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	186	492	(62.2)%	(306)
Gains on financial assets and liabilities held for trading	1	672	-	(671)
Gains on non-trading financial assets mandatorily at fair value through profit net	438	35	-	403
Profit/Loss from hedge accounting	(76)	(878)	(91.3)%	802
Gains on financial assets and liabilities designated at fair value through profit or loss	238	290	(17.9)%	(52)
Net trading result	**787**	**711**	**10.7%**	**76**
Gains on derecognition of non-financial assets, net	(4)	157	-	(161)
Other operating income	439	530	(17.2)%	(91)
Other operating expense	0	(16)	-	16
Operating income, net	**5,439**	**4,692**	**15.9%**	**747**
Provisions	3	(3)	-	6
Impairment on financial assets not measured at fair value through profit or loss	(224)	(133)	69.0%	(91)
Impairment on non-financial assets	-	-8	-	8
General and administrative expenses	(2,419)	(2,366)	2.2%	(53)
Modification (Loss), net	(62)	(237)	(73.8)%	175
Profit/Loss before tax	**2,737**	**1,945**	**40.7%**	**792**
Income tax benefit	8	428	(98.1)%	(420)
Profit/Loss for the year	**2,745**	**2,373**	**15.7%**	**372**
Comprehensive income				
Profit/Loss for the year	2,745	2,373	15.7%	372
Other comprehensive income	(493)	(732)	(32.7)%	239
Items that will not be reclassified to prof-it or loss	9	9	0.0%	-
Fair value changes of equity instru-ments measured at fair value through other comprehensive income	-	-	-	-
Income tax benefit relating to items that will not be reclassified	9	9	0.0%	-
Items that may be reclassified to profit or loss	(502)	(741)	(32.3)%	239
Hedging instruments	183	3	-	180
Debt instruments at fair value through other comprehensive income	(685)	(744)	(7.9)%	59
Income tax relating to items that may be reclassified to profit or (-) loss	-	-	-	-
Total comprehensive income for the year	**2,252**	**1,641**	**37.2%**	**611**

The Bank's pre-tax profit was HUF 2.7 billion in 2021, 40.7% above 2020's HUF 1.9 billion. Full-year profit was HUF 2.4 billion in 2021 (up from 2020's HUF 2.4 billion). Total comprehensive income was also higher last year than in 2020: it amounted to HUF 2.3 billion as opposed to HUF 1.6 billion a year earlier.

3.7.1 Net interest income

Net interest income was HUF 4.2 billion in 2021 (HUF 3.2 billion in 2020) as a result of HUF 14.7 billion in income (up 28.4% from 2020) and HUF 10.5 billion in expenses (up 26.9% from 2020). In sum, net interest income was HUF 1 billion (32.3%) higher in 2021 than in the preceding year.

With respect to interest income the HUF 3.3 billion increase in the volume of interest interest income of financial assets valued at amortized costs and non-trading financial assets mandatorily at fair value through profit or loss was the most decisive factor. Its value was HUF 13.3 billion in 2021 (HUF 10 billion in 2020).

Interest expenses were 26.9% higher in 2021 than in 2020. Within this interest expense on financial liabilities valued at amortized costs have the most important role: this amounted to HUF 9.5 billion in 2021, HUF 2 billion above that of the preceding year's HUF 7.4 billion.

3.7.2 Net fees and commissions

In 2021 the Bank achieved a negative balance of HUF 31 million on fees and commissions as opposed to a surplus of HUF 98 million back in 2020. Income from fees and commissions reached HUF 589 million (down 14.4% from 2020), due to unfavourable changes in the fee and commission income from refinanced mortgaged loans as well as lower income from valuation. Expenses amounted to HUF 620 million in 2021 (up from 2020's HUF 590 million). This growth reflects higher fees paid to agents, whereas the costs on valuation and Treasury activity were somewhat smaller than in 2020.

3.7.3 Net trading result

The balance of net trading results amounted to HUF 787 million in 2021, which is 10.7% rise compared to 2020. This is mostly explained by gains on financial assets kept for non-trading purposes valued mandatorily at fair value through profit and loss.

3.7.4 Net operating income

Similarly to the net trading result the net operating income of the Bank also improved in 2021. The HUF 5.4 billion profit last year is 15.9% higher than the preceding year's HUF 4.7 billion.

3.7.5 General and administrative expenses

The general and administrative expenses of the Bank increased by only 2.2% (i.e. by HUF 53 million) in 2021, reaching a level of HUF 2.419 billion overall compared to HUF 2.366 billion in 2020. Whereas personnel costs (up by HUF 108 million) and consultancy fees (up by HUF 245 million) substantially increased, fees for other prudential activities and the Compensation and Resolution Funds (down by HUF 68 million) and SLA expenditures (down by HUF 302 million) were sharply reduced.

Operating costs (HUF million)	2021	2020	Change (%)	Change (HUF million)
Personnel costs	315	207	52.2%	108
Marketing and advertising	6	1	-	5
General and administrative costs	96	93	3.2%	3
Rental fees	21	19	10.5%	2
Depreciation of tangible assets	28	33	(15.2)%	(5)
Amortisation of intangible assets	22	25	(12.0)%	(3)
Consultancy fees	430	185	132.4%	245
Maintenance costs	423	350	20.9%	73
Sector-specific tax on credit institutions	0	98	-	(98)
Other taxes	185	177	4.5%	8
Insurance fees	7	5	40.0%	2
IT costs / Database system usage	78	60	30.0%	18
Supervisory fees	52	38	36.8%	14
Fees for other prudential activities, compensation and resolution funds	463	531	(12.8)%	(68)
SLA service costs	203	505	(59.8)%	(302)
Other non-specified costs	90	39	130.8%	51
Total costs	**2,419**	**2,366**	**2.2%**	**53**

3.7.6 Impairment and provisioning

The net balance of impairment and provisioning was HUF 221 million in 2021.

3.7.7 Modification (Loss)/gains, net

The cost of the repayment moratorium that came into effect on March 18, 2020 is derived from the loss impact on the net present value of not served and thus accrued credit cash-flows. The total impact for the Bank was HUF 62 million loss in 2021.

3.7.8 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 2.7 billion in 2021 (it was HUF 1.9 billion in 2020).

4 LIQUIDITY MANAGEMENT

Due to its special legal mortgage bank status the Bank is not allowed to collect client deposits, hence among its liabilities the components with the highest weight are mortgage bonds and interbank liabilities. In the course of 2021 the weight of long-term (3- and 5-year) central bank refinancing sources originating from the MNB's long-term covered refinancing operations was also decisive (at the end of July 2021 the central bank finished these operations, new deals are not available, but the outstanding stock remains intact).

As a member of Takarék Group the Bank covers its liquidity positions mostly against other entities within Takarék Group. The Bank is entitled to cover its amount of refinanced and self-issued loans by issuing mortgage bonds only to the extent of capital, which can be taken into account in the coverage pool. Correspondingly, the financing of the uneligible capital of the stock of mortgage debt and the liquid assets needed for meeting the excess coverage and the 180-day liquidity buffer, formed by internal regulation to secure the future principal and interest payments on mortgage bonds, should mostly be financed from uncovered liabilities. Also due to internal regulations the Bank maintains 2% excess coverage.

The credit rating of mortgage bonds issued by the Bank is performed by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank's mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. No change has taken place in the rating since then.

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities - following the adoption of the purely mortgage bank strategy in 2018 - are primarily influenced by developments in the stock of refinanced loans, and the level of activity in primary mortgage bond issuances with a view to secure the MFAR compliance of Takarék Group.

From the aspect of the liability structure 2020 was a special year, as the central bank's policy responses to the economic and financial impacts of the coronavirus pandemic, i.e. the overhaul of the monetary policy tool set markedly influenced the composition of the Bank's liabilities. Following the start of the central bank's second mortgage bond purchase program, partner institutions could also increase the stock of credit offered for refinancing, and the thus expanding coverage pool made it possible for the bank to actively participate in the MNB's program.

The amount of mortgage bonds increased by 1.1% (HUF 3.5 billion) rising from a face value of HUF 319.5 billion at the end of 2020 to HUF 323 billion by the end of 2021. In the past year the Bank raised HUF 24.5 billion in new funds exclusively in the form of mortgage bond issuances through stock market auctions with the involvement of the entire range of dealers. In the period under review there was one repurchase from an Euro denominated series to the tune of EUR 500 thousand. The total face value of expiring series (one) was HUF 20.9 billion in 2021.

No uncovered issuances were made in 2021.

The stock of covered loans taken from the central bank amounted to HUF 235.5 billion at the end of the year (10.7% above the end-2020 volume), while interbank liabilities towards the parent bank amounted to HUF 25.4 billion.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

The Bank is a member of the Central Organization of Integrated Credit Institutions (COICI) and the Takarék Group.

Taking into account the MBH's regulatory framework MTB, which performs the governing functions of Takarék Group, defined the general risk taking principles, the acceptable risk types, the tools for managing and measuring risks and the organization of risk management in its Risk Policy and Risk Strategy, which was also approved by the COICI.

Risk Policy includes the following:
- risk taking principles;
- guidelines and methods to identify significant risks;
- the setup of risk management with the presentation of the organization.

Risk Strategy includes the following:
- the definition, identification, the extent and severity of risks;
- the short presentation of the external environment and the business strategy;
- the presentation of the goals of strategic risk management;
- the presentation of risk appetite indicators, the recommended limits and alert levels;
- the short presentation of projects involving major risk control.

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

The Bank must comply with the requirements of COICI and MTB as the business management body of the Integration, moreover with MBH regulations.

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

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

The Bank considers prudent risk taking as a vital value.

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

5.2 CREDIT RISK

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

In the case of both the household and the corporate portfolio the main changes impacting risk management were motivated by changes in methodologies applied in the wake of the pandemic. In its calculations of credit risk the Bank introduced a so-called macro correction, which was based on the actual macroeconomic model. From the second quarter of 2021 the macro correction parameters used to calculate group-level impairment needs were upgraded to reflect the new macroeconomic projections set in the circular of the central bank issued in the first quarter of 2021. These projections depicted favourable economic developments, which, on its own, would reduce the volume of impairment. To offset for this, a so-called "Management Overlay" correction was introduced, which ensures transaction-level correction based on the appropriate setting of the expected default rate. The joint impact of the MNB macro correction and the Management Overlay was a minimal move in the volume of impairment.

The corporate credit portfolio of the Bank fully consists of project loans with commercial real estate as collateral. With respect to this clientele the sector-specific limit system applied to corporate lending was instrumental in establishing risk taking directions in year 2021.

5.3 LIQUIDITY AND MATURITY RISK

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

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

Due to its specialized credit institution status and its strategy (applied since 2018) of a purely classic mortgage bank, the company's balance sheet structure is much simpler than that of a classic commercial bank. On the asset side it is the increasing stock of refinancing loans (the stock of own loans gradually narrows, new disbursements did not take place since 2018) and liquid securities, while on the liabilities side it is issued mortgage bonds and the long-term central bank financing sources (exclusively 3- and 5-year maturity loans) qualify as decisive items.

Since in the framework of LTRO the central bank extends covered credit to market players, for the Company it is the mismatches in the maturity structure of mortgage bonds and the stock of refinanced loans (and the still outstanding own credit), as well as the potential loss on bonds locked for MNB as the beneficiary, where the liquidity risk to be addressed comes from.

The Bank prepares its liquidity plans in close cooperation with MTB's relevant risk departments. This is based on expectations derived from different scenarios taking into account the possible effects of stress situations. Within the Bank's collateral asset pool the excess coverage (which reduces liquid assets) is constrained by internal limits, moreover, under internal regulations the Bank keeps up a liquidity buffer enough to cover cumulated outflows on a 180-day horizon, hence its liquid assets secure sufficient reserves to cover potential risks.

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

Operational risks are handled through the continuous improvement of internal regulations and procedures, the adequate training of employees and the enhancement of built-in control mechanisms. The senior management of the Bank regards feedbacks as an indispensable tool in managing operational risks. It is considered a very important aspect to monitor the effectiveness of measures taken in order to eliminate operational risks. The Bank collects and analyses loss data due to operational risk based on a system of Key Risk Indicators (KRI), and there is a regular monthly report about developments in this subject. In order to identify operatiónal risks in time the Bank supports its employees by providing internal training.

The KRIs are reviewed each year, thus also in 2021 various KRIs were modified and new KRIs were defined as well. In order to improve the quality of these indicators, the operational risk division of the Bank holds expert meetings with those departments that are responsible for the collection and processing of data, and they jointly decide on indicators and their critical levels/limits.

In the case of key activities the Bank made a self-evaluation of operational risks and defined those rarely occurring events that potentially cause heavy losses. The impacts of such events are estimated by scenario analyses.

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

6 ORGANIZATION CHANGES AND HEADCOUNT

The Bank functions as a classic mortgage bank: business and mortgage loan extending and managing functions as well as group control, supervision and support functions are performed by the MTB. The Bank's organizational setup was unchanged in 2021, the full-time equivalent number of employees was 14 at the end of 2021.

7 PROTECTION OF ENVIROMENT

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

The Bank has a Green Mortgage Bond Committee (GMBC), whose members are as follows: the chief executive officer (CEO), the Deputy CEO responsible for risk management and the leader of the capital market, the refinancing, the ALM, the collateral recording and the collateral management businesses. The main duties of the GMBC are: (i) to make decisions about the green qualification of new and existing collaterals and (ii) to regularly review the availability of green collateral behind the issued green mortgage bonds. The Bank issued its first green mortgage bond (Series TZJ27NF1) on October 27, 2021 in a total amount of HUF 5 billion. Further issuances can be expected ion 2022, the first of which is scheduled to February (see the section on post balance sheet date events).

In November 2020 the Bank joined the Energy Efficient Mortgage Inititative of the European Mortgage Federation.

8 OTHER SERVICES PROVIDED BY THE AUDITING COMPANY

For miscellaneous other services (preparing for ESG, ESG roadmap) the auditing company invoiced a fee of HUF 13.335.000 for the Bank in 2021.

9 POST BALANCE SHEET DATE EVENTS

Auction

The Bank organized the auction of the third tranche of TJ25NV01 Takarek mortgage (covered) bond (maturity: 26.11.2025, interest rate: variable/current annual interest: 3.67%) on 24 January 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 10,060 million, the total nominal value issued was HUF 7,200 million, while the average selling price (net) was 100.4153%.

The Bank organized the auction of the third tranche of TJ26NF02 Takarek mortgage (covered) bond (maturity: 22.12.2026, interest rate: fix: 1.75%) on 8 February 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 7,970 million, the total nominal value issued was HUF 12,520 million, while the average selling price (net) was 84.5527%.

At the end of February the Bank arranged a double green mortgage bond issue transaction. It offered to the investors the second tap of TZJ27NF1 originally 6 year tenor, with 5 year tenor and 3.5 coupon total offered (nominal) value of HUF 5 billion green covered bond and the first tap of TZJ32NF1 10 year tenor, with 5.75% coupon and total offered (nominal) value of HUF 3 billion. As a result of the auctions, the Bank issued 7.45bn and 1.97bn forint nominal amounts, respectively.

European Energy efficient Mortgage Label

The Bank as the first Hungarian Mortgage Bank joined the family of the European Energy efficient Mortgage Label (EEML) on 21st of February 2022. EEML is a clear and transparent quality label for consumers, lenders and investors, aimed at identifying energy efficient mortgages (EEM) in lending institutions' portfolios, which are intended to finance the purchase/construction and/or renovation of both residential (single family & multi-family) and commercial buildings, with a focus on building energy performance. The EEML is intended as a global benchmark for EEM from the perspective of lending institutions and institutional investors. The membership is extremely increase the reputation of the Bank. (The Hungarian Central Bank is also among the members of the EEML Advisory Council.

Issued Bond by Hungarian Bankholding Ltd.

Based on paragraph 20/H (1) – effective from October 29, 2021 – of Act 135 of 2013 on the modification of the integration of cooperative credit institutions and select economic legislation the Integration Organization – in order to meet the goals of the integration of credit institutions – is obliged to invest its assets until January 31, 2022 into bonds, to be issued by the financial holding parent company, i.e. the Hungarian Bankholding Ltd. (which has supervisory control influence over the Integration Organization) for 20-year maturity, paying a coupon that matches the average YTM of applicable government bonds as published on the website of AKK Ltd. (State Debt Management Centre) provided that Hungarian Bankholding Ltd. is obliged to issue these bonds at a value, which is set in the inquiry of the Integration Organization according to legal provisions.

In its resolution made on January 20, 2022 the general meeting of Hungarian Bankholding Ltd. ordered to the bond issuance. Based on the resolution of the general meeting the MBH 2042/A bond series (ISIN: HU0000361282) was issued and subscribed by the Integration Organization within the statutory deadline. Hence, as of January 31, 2022 the Integration Organization's securities account was credited by 3,794 pieces of MBH 2042/A bonds bearing a face value of HUF 50 million each, while the account of Hungarian Bankholding Ltd., the issuer, was credited by HUF 188,220.34 million as the value of the bonds sold at the 99.22% subscription price.

Russian / Ukrainian conflict

After the closing of Q4 2021, the Russia conflict of -Ukraine meant an important change in the economic environment in late February 2022. Geopolitical conflicts contribute to the uncertainty of growth prospects. The favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures, and these trends have been exacerbated by the war.

The conflict, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% in February after 5.1% in January. Domestic price pressures rose to 8.3% yoy in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.

In response to developments since the end of February, Hungarian National Bank (MNB) raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the O/N (overnight) deposit remained unchanged. MNB announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (the Hungarian National Bank raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). High inflation could dampen strong economic growth this year for both the domestic and European economies.

The Ukrainian-Russian war conflict did not cause any significant direct business disadvantages for Takarék Mortgage Bank, nor for the other member banks of Hungarian Bankholding. Both the Bank's capital position and its liquidity position are stable, have significant reserves and are well managed. There was no material direct banking risk in either the retail or the corporate client segment. Interbank money market limits towards the countries concerned were immediately closed (no exposure). Hedge monitoring of counterparty positions was confirmed (no counterparty positions below the hedging limit).

None of the Bankholding's member banks had any significant open foreign exchange positions, and the hectic movements in foreign exchange rates did not cause any direct losses.

The Strategic Analysis Centre of Hungarian Bankholding continuously monitors and analyses relevant changes in the money and capital markets. The exchange rate volatility of the forint has increased in line with the other regional currencies. Despite this, the Bank has not experienced any significant retail demand for foreign exchange swaps or foreign currency borrowing compared to normal business. Possible changes in asset prices (including hedged financial assets and real estate) are also in focus of monitoring.

All members of Bankholding comply with EU and US sanctions lists, including the requirements for exclusion from the SWIFT system. However, the exclusion of a significant proportion of Russian banks from SWIFT makes trade and settlement relations more difficult for Hungarian companies with Russian relationship.

In connection with the Ukrainian-Russian war conflict, the direct and indirect affected clients have been detected at the Hungarian Bankholding level, and their follow-up is carried out by members of Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based on the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

In case of Takarek Mortgage Bank: The Bank does not have a significant corporate portfolio, in case of retail portfolio, the perceived increases in risk observed during routine monitoring processes should be individually identified and managed at the time of occurrence.

Takarék Mortgage Bank Plc.

Separate Financial Statements
and
Independent Auditor's Report

December 31, 2021

Deloitte.

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takarék Mortgage Bank Plc.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements in 5299007F4BUUY6S14E44-2021-12-31-en.xhtml[1] digital file of Takarék Mortgage Bank Plc. (the „Bank") for the year 2021 which comprise the separate statement of financial position as at December 31, 2021 – which shows a total assets of mHUF 665,015 –, and the related separate statement of recognized income, separate statement of comprehensive income – which shows a net profit for the year of mHUF 2,745 –, separate statement of changes in equity and separate statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

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[1] Digital identification of the above referred 5299007F4BUUY6S14E44-2021-12-31-en.xhtml separate financial statements using SHA 256 HASH algorithm is sMO8qEQnR0sZHQ0=

Key Audit Matter	How our audit addressed the matter
Calculation of expected credit losses on loans assessed on portfolio-level	
(See Sections 17 of Notes to the Separate Financial Statements for the details) As at December 31, 2021 the Bank shows net value of loans to customers at amortised cost in an amount of mHUF 31,573 (gross amount mHUF 32,615) in connection with mHUF 1,042 impairment on loans (collective: mHUF 415) has been recognized. The calculation of expected credit losses of loans assessed on portfolio-level requires application of professional judgement and use of highly subjective assumptions by management. The most significant assumptions applied in provisioning calculation are the followings: - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL. Based on the significance of the above described circumstances the calculation of expected credit loss of loans assessed on portfolio-level was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - testing design and operative effectiveness of key controls relating to monitoring of loans and calculating and recording of impairment; - test of staging through portfolio level analysis and the staging methodology applied by the model, - robust challenge of management estimates related to the provisioning; - assess the collective model methodology and testing the calculations in terms of risk parameters (probability of default - PD, loss given default - LGD, expected credit loss - ECL, macroeconomic factors) applied by the collective models by involving of experts, recalculation of impairment, - comprehensive analysis of loan portfolio; - assessing the requirement for additional allowances considering the Bank's ECL model, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses; and - assessing the adequacy of the disclosures in the financial statements.

Other matters

The Bank's management is responsible for the presentation of the separate financial statements in accordance with the requirements of Article 3 of Commission Regulation (EU) 2019/815 of 17 December 2018 (the "ESEF Regulation"). The scope of our audit was limited to the human-readable content of the digital file containing the separated financial statements, which is electronically identified in our report, and does not include an examination and, accordingly, we do not express an opinion on whether the digitised information complies in all material respects with the requirements of the ESEF Regulation.

Other Information

Other information comprises the information included in the annual report and the business report of the Bank for 2021. Management is responsible for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled „*Opinion*" does not apply to the business report.

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

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

In our opinion, the business report of the Bank for 2021 corresponds to the financial statements of the Bank for 2021and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

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

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

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

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

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on

Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 27, 2021 and our uninterrupted engagement has lasted for 10 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on April 5, 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, April 5, 2022

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

....
Molnár Attila
Statutory registered auditor
Registration number: 007379

Takarék Mortgage Bank Public Limited Company
Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2021

Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2021

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GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Dr. Zsolt Harmath (2 January, 2022)
Rózsa Zsolt János (since 3 January, 2022)

Members of the Board of Directors
Dr. Gyula László Nagy
Attila Mészáros
Éva Hegedűs
Ildikó Ginzer
Pál Sass

Responsible person for the control and management of accounting services:
Ildikó Brigitta Tóthné Fodor

Auditor company
Deloitte Auditing and Consulting Ltd.

Statutory registered auditor
Attila Molnár

In the second half of 2019 the shares of Takarék Commercial Bank Ltd. – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd. (hereinafter: MTB Ltd.) by Takarék Mortgage Bank (hereinafter: the Bank), therefore the consolidated financial statements were not prepared by the Bank since 2020.
As the parent companies of the Bank, - Magyar Bankholding Ltd. (the main parent) and MTB Ltd. - are prepared the Bank's consolidated financial statements regard to the companies included in the scope of consolidation.

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

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

Separate Statement of Profit or Loss for the year ended 31 December 2021

	Notes	2021	2020
Interest income	4	14,704	11,449
Interest expense	4	(10,456)	(8,237)
Net interest income		**4,248**	**3,212**
Fee and commission income	5	589	688
Fee and commission expense	5	(620)	(590)
Net fee and commission income		**(31)**	**98**
Profit/(Loss) from foreign exchange transactions	6	-	100
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	186	492
Gains on financial assets and liabilities held for trading	8	1	672
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	18	438	35
(Losses) from hedge accounting		(76)	(878)
Gains on financial assets and liabilities designated at fair value through profit or loss		238	290
Net trading result		**787**	**711**
(Losses)/Gains on derecognition of non-financial assets, net	9	(4)	157
Other operating income	9	439	530
Other operating expense	9	-	(16)
Operating income, net		**5,439**	**4,692**
Release of provision / (Provisions)	25, 30	3	(3)
Impairment on financial assets not measured at fair value through profit or loss	30	(224)	(133)
Impairment on non-financial assets	19,20	-	(8)
General and administrative expenses	10	(2,419)	(2,366)
Modification (Loss), net	30	(62)	(237)
Profit before tax		**2,737**	**1,945**
Income tax benefit	12	8	428
Profit for the year		**2,745**	**2,373**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Other Comprehensive Income for the year ended 31 December 2021

	Notes	2021	2020
Profit for the year		2,745	2,373
Other comprehensive loss	**13**	**(493)**	**(732)**
Items that will not be reclassified to profit or loss		**9**	**9**
Income tax benefit relating to items that will not be reclassified	13	9	9
Items that may be reclassified to profit or loss		**(502)**	**(741)**
Hedging instruments		183	3
Debt instruments at fair value through other comprehensive income		(685)	(744)
Total comprehensive income for the year		**2,252**	**1,641**
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)		22.82	19.73
Diluted earnings per share (HUF)		22.82	19.73
Weighted average number of shares		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2021

	Notes	31 December 2021	31 December 2020
Assets			
Cash, cash balances at central banks and other demand deposits	14	229	1,499
Financial assets held for trading	15	2,359	103
Financial assets at fair value through other comprehensive income	16	26,242	34,889
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	17, 18	634,964	573,880
Derivatives – Hedge accounting	29	-	926
Tangible assets	19,21	95	125
Intangible assets	20	203	208
Tax assets	12	512	348
Other assets	22	411	163
Total assets		**665,015**	**612,141**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2021

	Notes	31 December 2021	31 December 2020
Liabilities			
Financial liabilities held for trading	15	2,309	88
Financial liabilities designated at fair value through profit or loss	23	6,121	6,484
Financial liabilities measured at amortised cost	24	585,534	538,318
Derivatives – Hedge accounting	29	1,112	284
Provisions	25,30	28	116
Tax liabilities	12	147	4
Other liabilities	26	828	163
Total liabilities		**596,079**	**545,457**
Equity			
Share Capital	27	10,849	10,849
Share premium		27,926	27,926
Accumulated other comprehensive (loss)/ income	27	(233)	260
Retained earnings		26,417	24,319
Other reserve	27	1,439	1,164
Treasury shares (-)	27	(207)	(207)
Profit for the year		2,745	2,373
Total equity		**68,936**	**66,684**
Total equity and total liabilities		**665,015**	**612,141**

Budapest, 5 April 2022

Dr. Gyula László Nagy
CEO

Attila Mészáros
Deputy CEO

Takarék Jelzálogbank Nyrt.
TAKARÉK JELZÁLOGBANK
1117 Budapest, Magyar Tudósok körútja 9. G. ép.

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

Separate Statement of Cash Flows for the year ended 31 December 2021

	Notes	2021	2020
Cash flow from operating activities			
Profit for the year		2,745	2,373
Non-cash adjustments to net profit from			
Depreciation and amortization		50	58
Impairment/provision/ (-) Release of impairment/provision for losses		153	124
Provision/ (-) Release of other impairment/ provision		(88)	(383)
(Gain)/Loss on tangible assets derecognized		(7)	3
Interest expense on the lease liability		1	1
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		1,719	856
Fair value adjustments on financial liabilities designated at fair value through profit or loss		(363)	(68)
Operating profit before change in operating assets		**4,210**	**2,964**
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		-	1,800
Non-trading financial assets mandatorily at fair value through profit or loss		2,097	-
Financial assets at fair value through other comprehensive income		8,154	-
Financial assets at amortised cost		(63,335)	(279,265)
Other assets		(412)	7,257
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		(2,910)	59,144
Other liabilities		808	(720)
Net cash flow from operating activities		**(51,388)**	**(208,820)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Cash Flows for the year ended 31 December 2021 (continued)

	Notes	31 December 2021	31 December 2020
Cash flow from investing activities			
Proceeds from sales of tangible and intangible assets		23	(3)
Purchase of tangible and intangible assets		(31)	(2)
Sales of subsidiary		-	-
Net cash outflow from investing activities		**(8)**	**(5)**
Cash flow from financing activities			
Repayment of leasing liabilities		(16)	(25)
Repayment/borrowing of long term loans		50,142	209,279
Net cash outflow from financing activities		**50,126**	**209,254**
Increase/ (-) Decrease in cash and cash equivalents		(1,270)	429
Opening balance of cash and cash equivalents		1,499	1,070
Closing balance of cash and cash equivalents		**229**	**1,499**
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		3	872
Due from banks with a maturity of less than 90 days		226	627
Closing balance of cash and cash equivalents		**229**	**1,499**
Supplementary data			
Interest received		*14,704*	*11,449*
Interest paid		*(10,456)*	*(8,237)*

All figures in tables are in HUF million except otherwise noted

Separate Statement of Changes in Equity for the year ended 31 December 2021

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
At 1 January 2020		**10,849**	**27,926**	**992**	**24,556**	**927**	**(207)**	**65,043**
Profit for the year		-	-	-	2,373	-	-	2,373
Other comprehensive income for the year		-	-	(732)	-	-	-	(732)
General reserve		-	-	-	(237)	237	-	-
At 31 December 2020		**10,849**	**27,926**	**260**	**26,692**	**1,164**	**(207)**	**66,684**
1 January 2021 - Opening		**10,849**	**27,926**	**260**	**26,692**	**1,164**	**(207)**	**66,684**
Profit for the year		-	-	-	2,745	-	-	2,745
Other comprehensive income for the year		-	-	(493)	-	-	-	(493)
General reserve		-	-	-	(275)	275	-	-
At 31 December 2021		**10,849**	**27,926**	**(233)**	**29,162**	**1,439**	**(207)**	**68,936**

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The separate financial statements for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 5 April 2022. The final approval on the separate financial statements is provided by the General Meeting.

Name:	Takarék Mortgage Bank Co. Plc.
Seat:	1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website address:	https:// www.takarekjzb.hu
Mailing address:	1908 Budapest
Phone number:	+36 1 3344 344
Registration number:	01-10-043638
Tax number:	12321942-4-44
KSH statistical number sign:	12321942-6492-114-01
Year of foundation:	1997

Chairman of the Supervisory Board:	Dr. Zsolt Harmath (to 02.01.2022.)
	Zsolt János Rózsa (since 03.01.2022.)
Chairman of the Board:	József Vida
Chairman:	József Vida

Takarék Mortgage Bank Public Limited Company (hereinafter Takarék Mortgage Bank Co. Plc., Mortgage Bank, Bank, Company) was established on October 21, 1997 under the name of FHB Land Credit and Mortgage Bank Company.
The Bank's operations are provided by Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds as well as Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institution Act).
The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.
The Bank's core business as a specialized credit institution includes primarily the refinancing of long-term mortgage loans secured by mortgaged properties, and the issuance of long-term mortgage covered bonds (mortgage bonds).
On September 23, 2015 the Bank entered into the integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the former Bank Group are under the combined supervision of the MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Group from 1st of January 2017 onwards.
From 24 September 2015 the principle of joint and several responsibilities defined in the Section 4 of Article 1 of Szhitv covers also Mortgage Bank and Takarék Commercial Bank (hereinafter Commercial Bank), according to the decision of the Board of Directors of MTB Ltd. The Takarék Mortgage Bank and Commercial Bank became member of the Guaranty Community of Savings Cooperatives.

In December 2017 the Bank sold the majority of their direct and indirect investments leaving Takarék Commercial Bank Ltd. amongst their shares unsold until the date 29 October 2019. At this time Takarék Mortgage Bank sold with this transaction all of their 51% share in Takarék Commercial Bank to the MTB Ltd. The Takarék Commercial Bank is integrated into the scope of consolidation of the parent company MTB Ltd.

All figures in tables are in HUF million except otherwise noted

The services previously provided by the Mortgage Bank (full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision and leasing activity), are provided by MTB Ltd. to the Mortgage Bank within the framework of SLA contract.
The Commercial Bank, as the agent of the Takarék Mortgage Bank Co. Plc., were fully responsible for direct lending, furthermore performs loan aftercare and qualified loan management until the date 31 October 2019 then was merged into Takarékbank Ltd. Although, Takarék Commercial Bank, in order to have favourable funding costs, had part of their loans refinanced by the Takarék Mortgage Bank Co. Plc. Following the merger of the Commercial Bank, the Takarékbank Ltd. carries out the credit management and qualified loan management activities in respect of the Mortgage Bank's own loan portfolio, and the Mortgage Bank refinances part of Takarékbank Zrt.'s mortgage loan portfolio. The Mortgage Bank starting in April 2018 cancelled its own new lending activity.
On March 11, 2020, the Management Board of the Takarek Group approved the Pandemic Plan and the Amendment of the Business Continuity Policy, and the Pandemic Operational Staff (POT) was established. From this time the POT coordinates in close cooperation with the Management Board and other relevant departments the tasks of the Takarék Group in relation to the coronavirus crisis. The POT continually formulates instructions and recommendations to all employees and about this send information to the meetings at appropriate intervals, also in 2021. (See other pandemic notes 3.34. and 30.4)
MTB Bank of Hungarian Savings Cooperatives Co. Ltd. the Company's qualified majority owner, MKB Bank Plc. and Budapest Credit and Development Bank Private Company Limited by Shares established Magyar Bankholding Ltd. (cg.: 01-10-140865; registered office: 1122 Budapest, Pethényi köz 10., hereinafter Hungarian Bankholding Ltd.) on 26 May 2020 with 33.33% direct participation of MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Based on the authorisation of the National Bank of Hungary, the Budapest-Capital Regional Court as Court of Registration registered Hungarian Bankholding Ltd. in the company register with its resolution no. 01-10-140865/5.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December 2020, after MNB (acting as the central bank of Hungary) approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company. By transferring the in-kind contributions, the second largest banking group in Hungary has been established, with the Hungarian State owning 30.35 percent of the shares through Corvinus International Investment Ltd., the previous direct owners of MKB acquiring 31.96 percent of the shares and the previous direct owners of MTB Ltd. acquiring 37.69 percent of the shares.

Following the successful transfer of the in-kind contributions, the financial holding company will exercise prudential control and group management functions over the three banking groups and will plan and conducts a merger process that optimizes the operation of banks. The detailed merger roadmap and business strategy will be developed and the exploiting synergies from group operations will took place in 2021. The Board of Directors and the Supervisory Board of Hungarian Bankholding Ltd. have approved the strategy of the company for the next five years (2021-2025) in 2021.

For the time being, Budapest Bank, MKB and Takarékbank will retain their legal status and will operate as separate entities with independent brands until their integration.

MTB Bank of Hungarian Saving Cooperatives Co. Ltd. as the Company's qualified majority owner made a mandatory public purchase offer for all shares issued by Takarék Mortgage Bank Co. Plc. on 30 December 2020. MTB Zrt. accepted the offered shares and classified mandatory public purchase offer as successful. After the transfer of the offered shares, the share of MTB Zrt. in Takarék Mortgage Bank Co. Plc. increased from 86.20% to 88.13%, and the combined share of MTB Zrt. and the persons acting in consultation with it, increased from 94.82% to 96.76%.

On December 15, 2021 the main bodies of MKB, Budapest Bank and Hungarian Savings Bankholding Ltd. (MTBH) (which is the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of Hungarian Bankholding Ltd., namely MKB and Budapest Bank are going to merge on March 31, 2022, while Takarék Group will join the merged bank in the second quarter of 2023.
In January 2022, the MNB approved the merger of Budapest Bank Zrt. and MTBH Ltd. (which is the owner of Takarék Group) into MKB Bank Plc. on March 31, 2022. The merged bank will temporarily operate under the name of MKB Bank Plc. The merger does not mean a change in the ownership structure of the banking group, the controlling owner of the banks participating in the fusion process will continue to be Hungarian Bankholding Ltd.
On 13 October 2021, the Hungarian Bankholding Ltd. contributed its shares owned in MTB Ltd. in kind to Hungarian Savings Bankholding Ltd. (MTBH). As a result, MTBH acquired 75,91% of the shares and 100% of the voting rights in MTB. Since MTB owns 88,13% of the shares and has 88,33% of the voting rights in Takarék Mortgage Bank Co. Plc., as a result of the in-kind contribution, MTBH became the indirect owner of 88,13% of the shares and 88,33% of the voting rights in Takarék Mortgage Bank Co. Plc.

In line with the previous years' practice TMB continued to tap the domestic mortgage bond market through public auctions organized at the Budapest Stock Exchange with a monthly/bi-monthly frequency in 2021. Total issued mortgage bond volume reached HUF 24.5bn, as a result of twelve transactions, which amount apparently lagged behind recent years' volume like in the whole domestic mortgage banking sector, as a consequence of two main factors. On one hand the Magyar Nemzeti Bank's purchases on the primary market under the scheme of Mortgage Bond Purchase Programme II. terminated in November 2020, whereas domestic mortgage banks (including TMB) maximized their mortgage bond issuances contributing to significantly lower funding cost. On the other hand the central bank officially launched its Green Mortgage Bond Purchase Programme–as a new element of its monetary policy tools–only in August 2021. In order to exploit the new programme, TMB issued its first ever green mortgage bond (TZJ27NF1, HUF 5bn nominal amount), which is planned to follow further green mortgage bond issuances in the short run.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

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

2.2. Functional and presentation currency

The separate financial statements are presented in Hungarian forint (HUF) that is the functional and presentation currency used by Bank. The figures are rounded to the nearest million, except if indicated otherwise.

2.3. Basis of measurement

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

2.4. Change in accounting policies

2.4.1. Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Annual Improvements (effective for annual periods beginning on or after 1 January 2022).

The adoption of amendments to the existing standards has not led to any material changes in the Bank financial statements.

2.4.2. Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

- **IFRS 17 "Insurance Contracts" including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors" –** Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** - Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023).

2.4.3. New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

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

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction ((effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 17 "Insurance contracts"** Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Financial assets held for trading
- Securities at fair value through other comprehensive income
- Non-trading financial assets mandatorily at fair value through profit or loss
    - Loans and advances to customers at fair value
- Financial assets at amortised cost:
    - Due from banks
    - Loans and advances to customers at amortised cost
    - Securities
- Derivatives – Hedge accounting

The Bank groups the recognised financial liabilities as follows:

- Financial liabilities held for trading
- Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost (other financial liabilities):
    - Due to banks
    - Deposits from costumers
- Derivatives – Hedge accounting

3.2. Cash and cash equivalents

For the purpose of the Separate Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.
Cash and cash equivalents are presented in the statement of financial position at amortised cost.

3.3. Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.
Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.
Derivatives include forwards, futures, swaps and options.

3.4. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value.

Unrealized gains and losses (Fair value difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on this items are recognized consolidated statement of profit or loss.
All investments in equity instruments that are not held for trading are classified as at equity instruments measured at fair value through other comprehensive income. The Bank shall make an irrevocably election to measure the investments in equity instruments at initial recognition on an share-by-share basis. Equity instruments at fair value through other comprehensive income are measured at fair value and the total changes in fair value are presented in other comprehensive income. Amounts presented in other comprehensive income are not transferred to profit or loss, even if the investment were sold. The dividends earned on equity instruments are recognised in consolidated statement of profit or loss.

3.5. Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, the partner credit institution sells independent mortgage rights to the Bank to cover the retail mortgage loans it provides, or – in case of applying a separate mortgage right – in addition by the transfer of the mortgage rights, uses a refinancing mortgage loan from the Bank.

The repurchase of the stand-alone mortgage and the repayment of the refinancing mortgage loan is carried out by the partner credit institution during the period of the refinanced loan transactions in such a way that the repurchase or repayment is adjusted to the partner bank's client's principal repayment schedule.
The refinanced loans of the partner banks meet the requirements regulated by law (therefore these loans are problem-free), the rating and impairment recognition obligation, as well as the receivable from the customer is recognised the given commercial bank.

Refinanced mortgages are classified as performing because by purchasing a stand-alone line or a separate line, the Bank lends a long-term loan to the partner commercial bank and the customer risk is recognised entirely at the partner bank, the Bank is only exposed to the partner bank's credit risk. The Bank presents refinanced mortgage loans at amortized cost less impairment (if there is any).

3.6. Loans and, due from banks at amortised cost

The Bank measures at amortised cost those Loans and placements with other banks, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

3.7. Non-trading financial assets mandatorily at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured mandatorily at fair value through profit or loss.
The Bank measures mandatorily at fair value through profit or loss those financial assets, which are not held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.8. Restructuring of loans

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank doesn't measure any significant gain or losses on the restructuring loans.
The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

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

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

3.9. Impairment losses on loans

Impairment losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model allowance for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition, unless purchased or originated credit-impaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss. An asset that meet the definition of default criteria step into the third stage.
Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition in accordance with IFRS 9 (they meet the definition of default).

For purchased or originated credit-impaired (POCI) assets shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses.

3.10. Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any.

The cost of an item of tangible and intangible asset includes the following elements:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and;
b) any costs directly attributable for the assets to be ready their intended use:
    - costs of employee benefits,
    - costs of site preparation,
    - delivery and handling costs,
    - insurance fees,
    - installation and assembly costs,
    - costs of testing,
    - professional fees,
    - costs of parts and maintenance equipments.
c) the initial estimate of the costs of dismantling and removing the item.

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

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

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

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

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

All figures in tables are in HUF million except otherwise noted

Intangible assets have a definite useful life, excluding goodwill.

3.11. Leases

The Bank assessed all lease contracts entered into or modified after the date of 1 January 2018 under IFRS 16 whether a contract is, or contains, a lease.
Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets. An agreement transfers the rights to control the use of an identified asset, if:

- An agreement contains identified asset. An asset can also be identified by being explicitly or implicitly specified in a contract. An asset has to be physically distinct or it represents substantially all of the capacity of the asset. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.
- The customer has the right to direct the use of the identified asset throughout the period of use. The lessee has this right if, within the scope of its right of use defined in the contract, the customer has the right to direct how and for what purpose the asset is used throughout the period of use. In that case, the relevant decisions about how and for what purpose the asset is used are predetermined, the customer has the right to direct the use of that asset following one of:
    - the customer has the right to operate the asset throughout the period of use; or
    - the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Bank applies the available expedients for all asset being leased, so decided not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
The Bank shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.
The Bank elect not to apply the requirements of IFRS 16 Leases to intangible assets.

The Bank as a lessee
The Bank as lessee shall recognise a right-of-use asset and a lease liability at the commencement date of the lease agreement. Right-of-use assets are initially measured at cost. The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee; and
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out restoration
- less any lease incentives received.

After the commencement date, the Bank shall measure the right-of-use asset applying a cost model. The Bank depreciates the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The determination of the useful life of the right-of-use assets are presented similar to owned property, plant, equipment and vehicles. The Bank applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise any impairment loss identified in accordance with the standard.
The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined.
If that rate cannot be readily determined, the Bank use the lesse's incremental borrowing rate. Typically the Bank use its own incremental borrowing rate to recognise lease liabilities. At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

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

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

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

The Bank shall remeasure the lease liability, if either:

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

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

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

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the statement of profit or loss as costs using the straight-line method during the life of the lease.
The Bank does not have right-of-use assets that meet the definition of investment property.
In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid.
The Bank as a lessee has typically property and company car lease agreements.

The Bank as a lessor
The Bank as a lessor shall classify the leases as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
When a contract includes both lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component. The Bank shall recognise lease payments from operating leases as income in profit or loss on a straight-line basis.
The Bank does not have sublease, sale and leaseback transactions. The Bank as a lessor has typically property lease agreements.

3.12. Non-current assets held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. The Bank must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell on initial recognition at the date of classification as held for sale.
An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

3.13. Impairment of non-financial assets

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

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset’s recoverable value since the last reporting of impairment.
The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

3.14. Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.15. Deferred taxes

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

3.16. Classification into financial liabilities or shareholders’ equity

Financial liability is any liability that is:

a) a contractual obligation:
   i. to deliver cash or another financial asset to another entity; or
   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

b) a contract that will or may be settled in the entity’s own equity instruments and is:
   i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
   ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments .

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

3.17. Financial liabilities carried at amortised cost

Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortised cost. At initial measurement, they are recognized at fair value plus transaction fees and charges should adjust the carrying amount at initial recognition that is directly attributable to the acquisition or issue of the financial liability.

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

The bank shall classify in this category its non-trading bonds and other non-trading financial liabilities (for example accounts payable, bail/cash deposit)

Financial liabilities that are designated at amortised cost are measured subsequently at amortised cost using the effective interest method.

3.18. Financial guarantee contracts

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

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

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.
Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment on financial assets not measured at fair value through profit or loss".

3.19. Derecognition of financial instruments

3.19.1. Derecognising of financial assets

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

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

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

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

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

3.19.2. Derecognising of financial liabilities

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

3.20. Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities is recognized in other operating expense.

3.21. Employee benefits

3.21.1. Short-term employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

3.21.2. Long-term employee benefits

The Bank has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Bank's policy.
In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

3.22. Repurchased treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. The repurchased treasury shares are recognised at their nominal value within 'Treasury shares' at the time of the decision to repurchase made by the Board. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, and no gain or loss is recognized in the statement of profit or loss. If the Board, within the framework of the repurchase decision, simultaneously decides on revoking shares, then the Bank reclassify these shares to the liabilities up to the date of the effective cancellation.

3.23. Income and expense

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

3.24. Fees and commission income and expenses

This group shall include fees and commission income and expenses that are not involved in the amortised cost model. Fees and commisions when they relate and have to be included in the amortised cost modell shall be recognised among interest income.
Fees and commision incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.25. Interest subsidy

State interest subsidy- retail loans
Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy). Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

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

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

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

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

3.26. Contingent liabilities / contingent assets

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

3.27. Post balance sheet events

Events after the balance sheet date are those events that occur between the balance sheet date and the date when the financial statements are authorised by management (Board of Directors, Supervisory Board) for issue.
The Bank is identified adjusting events after the balance sheet date and non-adjusting events after the balance sheet date. Adjusting events after the balance sheet date are incidences that provide evidence of conditions that existed at the balance sheet date, but information are received after the balance sheet date. The Bank shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Non-adjusting events after the balance sheet date are incidences that are indicative of conditions that arose after the balance sheet date. The Bank shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date, but its expected effects are disclosed in the Notes when material.

3.28. Offsetting

The Bank does not offset financial assets and financial liabilities, incomes and expenses unless required or permitted by a standard or an interpretation. (For example year-end not realized foreign exchange gains and losses, or exceptional financial instruments and cash-flow statements.). Usually the Bank use offsetting if the economic events are the same or similar and gains and losses arising from similar transactions are not material or their separation is not material, when offsetting reflects the economic content better.

3.29. Foreign currency translation

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

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

3.30. Trade date and settlement date accounting

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

3.31. Banktax

The Hungarian credit institutions are obliged to pay banking tax from the year 2010.
From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to IFRSat the actual calendar year minus two years. The Bank tax is presented as other operating expense in the Separate Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.
The total annual amount of the banking tax payable in 2020 and 2021 was already booked in one sum at the beginning of the year.

3.32. Significant accounting judgements and estimates

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

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

Fair value of financial instruments
In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 29)

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 3.14)

Loan impairment test and its result
The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.
For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets
The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.
When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.
Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

3.33. Reclassification and error

After the balance sheet date of the consolidated financial statements of 2020 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

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

In the the state of emergency caused by the coronavirus pandemic the following government decrees and other regulatory instruments were issued which effected the Bank's operations:

- Government Decree No. 639/2020 (XII.22.) on immediate measures necessary for alleviating the effects of the coronavirus pandemic on national economy;
- MNB Decree No. 20/2021 (VI.23.) of the Governor of the National Bank of Hungary (MNB) on the regulation of financial institutions' maturity matching of forint assets and liabilities;
- Government Decree No. 637/2020 (XII.21.) on the introduction of the special rules of the payment moratorium related to the state of emergency.

The National Bank of Hungary relaunched its mortgage bond purchase programme, which was the most relevant of the National Bank's actions for Takarék Mortgage Bank. After the temporary freezing of the mortgage bond market and issuance, Takarék Mortgage Bank was the first to return and issue mortgage bonds in May within the framework of the National Bank's renewed mortgage bond purchase programme.

3.35. Change in estimates

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

3.36. Comparative figures

Changes in the classification and valuation policy of a particular class of loans

In 2021, the Bank changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. The change in accounting policy was necessary due to the ongoing unification, as the main parent company of the Bank, Hungarian Bankholding Zrt., reviewed the group's practice of classifying certain state -subsidized loans according to IFRS9 in relation (primarily in the case of “CSOK” and “Baba-waiting loan=Babyloan). The interest payments on the affected retail loans are determined on the basis of the government bond reference yields and a multiplier, and the corresponding loan margin. Previously, in accordance with the Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2021, the Bank classified this type of loans as measured at fair value through profit or loss. The new accounting policy is in line with the practice of the majority of the players in the banking sector, thus better facilitating comparability.
The new accounting policy is applied retrospectively by the Bank as if it had always applied this the accounting policy. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy did not result in a material change in the carrying amount of the loans involved or equity. Therefore, the Bank did not change the related balance sheet values for the adjustment relating to period before those presented, the statements of financial position contains only the data at the end of the current period and at the end of the comparative period.

As a result of the change in accounting policy, the Bank adjusted the data for the comparative period in the statement of profit or loss account in accordance with the profit or loss items of the fair valuation categories. Due to the unchanged carrying amount in the balance sheet, this amendment resulted in the following reclassification between the profit or loss categories:

- The Bank recognizes the interest income on non-trading financial assets(loans) mandatorily at fair value through profit or loss in the Income similar to Interest Income line at the value corresponding to transactional interest. The comparative value of the line of interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using previously applied effective interest rate method.
- The Bank presents on the amount of commission income and commission expenses related to non-trading financial assets (loans) mandatorily at fair value through profit or lossin the Fee and commission income and Fee and commission expenses lines.
- The Bank presents the change in fair value of non-trading financial assets mandatorily at fair value through profit or loss,broken down into two components:
    - The Bank presents the portion of the change in fair value arising from changes in credit risk within Gains on non-trading financial assets mandatorily at fair value through profit or loss, net. This amount is determined using expected credit loss models used for loans measured at amortised cost. The comparative value of Impairment on financial assets not measured at fair value through profit or loss has been reduced accordingly with the loss allowance and reversal amounts for the respective loans.
    - The Bank presents the remaining component of the change in Gains on non-trading financial assets mandatorily at fair value through profit or loss, net.

The change in accounting policy did not impact the net profit for the comparative period.

The change in presentation means that the result recognized on these transactions is now presented in Income from fees and commissions.
In accordance with the new accounting policy, the Bank amended its respective disclosures notes. In the comparative figures the Bank reduced previously disclosed amortised cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Bank also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked 'Revised' by the Bank. The Bank also revised the presentation of the detailed notes to the amended profit and loss line items for comparative information in accordance with the new values in the statements of the profit or loss.

List of notes affected by the change:

Note number	**Note description**
Note 4	Interest and similar income and interest expense
Note 5	Fee and commission income and expense
	Gains on non-trading financial assets mandatorily at fair value through profit or loss, net
Note 17	Financial assets at amortised cost
Note 18	Non-trading financial assets mandatorily at fair value through profit or loss
Note 29.1.	Fair value of financial instruments / Loans and advances
Note 30	Risk management
Note 30.4	Credit risk
Note 33	Net gains

Line item	2020 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	2020 As previously presented
Interest income calculated using the effective interest method	10,330	(207)	10,537
Income similar to interest income	1,119	207	912
Interest income and similar to interest income	**11,449**	**-**	**11,449**
Fee and commission income	688	-	688
Fee and commission expense	(590)	(69)	(521)
NET FEE AND COMMISSION INCOME	**98**	**(69)**	**167**
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	35	35	-
Impairment on financial assets not measured at fair value through profit or loss	(133)	34	(167)
Profit for the year	**2,373**	**-**	**2,373**

All figures in tables are in HUF million except otherwise noted

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2021- 31 December 2021	1 January 2020 31 December 2020 (Revised presentation)	1 January 2020- 31 December 2020 (as previously presented)
Interest income			
Financial assets at amortised cost	13,111	9,826	10,033
Financial assets at fair value through other comprehensive income	411	504	504
Interest income calculated using the effective interest method	**13,522**	**10,330**	**10,537**
Financial assets held for trading	401	229	224
Non-trading financial assets mandatorily at fair value through profit or loss	204	207	-
Derivatives – Hedge accounting, interest rate risk	574	685	685
Interest income on financial liabilities	3	3	3
Income similar to interest income	**1,182**	**1,119**	**912**
Interest income and similar to interest income	**14,704**	**11,449**	**11,449**

**The accounting policy has changed the classification see in Note 3.36*

All figures in tables are in HUF million except otherwise noted

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Interest expense		
Financial liabilities measured at amortised cost*	9,456	7,413
Other liabilities	1	1
Interest expense calculated using the effective interest method	**9,457**	**7,414**
Financial liabilities held for trading	397	222
Derivatives – Hedge accounting, interest rate risk	333	318
Financial liabilities designated at fair value through profit or loss	261	271
Interest expense on financial assets	8	12
Expense similar to interest expense / Other interest expense	**999**	**823**
Interest expense and expense similar to interest expense	**10,456**	**8,237**

** To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset. Similarly to the ECB's steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity.*
The Bank actively participated at these tenders, and up to the end of 2021 it obtained HUF 235,766 million long-term (3- and 5-year) loans (HUF 212,989 million in 2020), which is used to purchase securities with favourable yield characteristics.

5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2021-31 December 2021	1 January 2020-31 December 2020 (Revised presentation)	1 January 2020-31 December 2020 (as previously presented)
Fee and commission income			
Mortgage loans	83	136	136
Handling commission	17	16	16
Real estate appraisal fee	318	365	365
Refinanced mortgage loans	171	171	171
Total	**589**	**688**	**688**

All figures in tables are in HUF million except otherwise noted

	1 January 2021- 31 December 2021	1 January 2020 31 December 2020 (Revised presentation)	1 January 2020- 31 December 2020 (as previously presented)
Fee and commission expense			
Fees and commissions to banks and to clearing house	11	9	9
Agency fee expense	228	70	1
Real estate appraisal fee	297	365	365
Treasury services	84	145	145
Other	-	1	1
Total	**620**	**590**	**521**

**The accounting policy has changed the classification see in Note 3.36*

6. PROFIT/(LOSS) FROM FOREIGN EXCHANGE TRANSACTIONS

	1 January 2021- 31 December 2021	1 January 2020- 31 December 2020
FX transactions realized gains	-	-
FX transactions non-realized gains/(loss)	-	100
Profit/(Loss) from foreign exchange transactions	**-**	**100**

All figures in tables are in HUF million except otherwise noted

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

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Financial assets at fair value through other comprehensive income	269	611
Financial assets at amortised cost	(74)	(161)
Financial liabilities at amortised cost	(9)	42
Total	**186**	**492**

8. GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
IRS deals*	(2,344)	788
CCIRS deals**	-	(102)
MIRS deals***	2,345	(19)
FX transactions	-	5
Total	**1**	**672**

*IRS= Interest Rate Swap
**CCIRS=Cross Currency Interest Rate Swap
***MIRS=Monetary Interest Rate Swap

All figures in tables are in HUF million except otherwise noted

9. OTHER OPERATING INCOME AND EXPENSE

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Gains or (losses) on derecognition of non-financial assets, net		
Sales of inventory	-	-
Sales of property, plant, equipments	(7)	(3)
Invoiced expenses and services	1	2
Other*	2	158
Total	**(4)**	**157**

* *In 2020, the amount of the HUF 148 million competition supervision fine returned by the Hungarian Competition Authority on the basis of a final judgment was accounted for in other operating profit.*

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Other operating income		
Reversal of provision	85	396
SLA services income	163	86
Other income*	191	48
Total	**439**	**530**

**In 2021, HUF 171 million was accounted in other income derived from the write-off time-barred liabilities related to the settlement of foreign currency loan or borrowing contracts that did not qualify as a foreign currency basis based on the Act XXXVIII and XL of 2014.*

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Other operating expense		
Donation	-	3
Loss on damages compensations paid	-	1
Other expense	-	12
Total	**-**	**16**

All figures in tables are in HUF million except otherwise noted

10. GENERAL AND ADMINISTRATIVE EXPENSES

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Staff costs	315	207
Marketing and advertising	6	1
General and administrative costs	96	93
Rental fee	21	19
Depreciation of tangible assets	28	33
Amortisation of intangible assets	22	25
Consultancy fees*	430	185
Maintenance costs*	423	350
Banking tax*	-	98
Other taxes	185	177
Insurance fees	7	5
Database system usage	78	60
Supervisor fee	52	38
SLA service costs*	203	505
CBIC** fee, CBIC** Capital Fund and Resolution and Compensation Fund fees	463	531
Other	90	39
Total	**2,419**	**2,366**

**In 2021, consultancy fees includes a management service fee (HUF 280 million). Among the maintenance costs, a significant item is the cost of software operation and support (HUF 402 million). The banking tax can be reduced by the CBIC fee paid, so in 2021 its amount is zero. SLA service costs based on the framework of SLA settlement agreement among the members of the MTB Bank group (including HR services, IT services, accounting services, compliance services, controlling management services, marketing services, legal services, back-up operations)*
***CBIC= Central Body of Integrated Credit Institutions*

All figures in tables are in HUF million except otherwise noted

11. STAFF COSTS

	1 January 2021- 31 December 2021	1 January 2020- 31 December 2020
Wages and salaries	272	180
Social security contribution	37	24
Other personnel related payments	5	3
Total	**315**	**207**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The full time head count of the Bank at the end of the reporting period was 14 (2020: 15).

12. INCOME TAX

	31 December 2021	31 December 2020
Current income tax	**(147)**	**(4)**
Corporate income tax	(147)	(4)
Deferred tax income/ (expense)	**155**	**432**
Total	**8**	**428**

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:
The Act LXXXI of 1996 on Corporate Tax Act applied 9% current income tax rate. Based on this information the Bank calculated the deferred tax with the 9% tax rate in 2021 and in 2020.

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

	31 December 2021	31 December 2020
Profit and loss before tax	*2,737*	*1 945*
Calculated corporate income tax (9%)	(246)	(175)
Items modifying the tax base	99	171
Remunerative/Unremunerative deferred tax because of change in business	106	383
Other modification	49	49
Total	**8**	**428**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

	31 December 2021				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Items modifying corporate tax base	512	-	512	106	-
Effect of corporate tax of IFRS adoption	-	-	-	49	-
Net deferred tax position	**512**	**-**	**512**	**155**	**-**

	31 December 2020				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferred tax position in reserves
Items modifying corporate tax base	406		406	383	-
Effect of corporate tax of IFRS adoption	-	58	(58)	49	9
Net deferred tax position	**406**	**58**	**348**	**432**	**9**

All figures in tables are in HUF million except otherwise noted

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2021	31 December 2020
Items that will not be reclassified to profit or loss	**9**	**9**
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
including: decrease/derecognition from equity instruments measured at fair value	-	-
Income tax relating to items that will not be reclassified	9	9
Items that may be reclassified to profit or loss	**(502)**	**(741)**
Hedging instruments	183	3
Debt instruments at fair value through other comprehensive income	(685)	(744)
Income tax relating to items that may be reclassified to profit or (-) loss	-	-
Total comprehensive income	**(493)**	**(732)**

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

	31 December 2021	31 December 2020
Cash on hand	-	-
Cash balances at central banks	3	872
Other demand deposits	226	627
Total	**229**	**1,499**

All figures in tables are in HUF million except otherwise noted

15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2021	31 December 2020
Financial assets held for trading		
IRS deals	-	81
MIRS deals	2,359	22
Total	**2,359**	**103**

	31 December 2021	31 December 2020
Financial liabilities held for trading		
IRS deals	2,299	14
MIRS deals	10	74
Total	**2,309**	**88**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021	31 December 2020
Equity instruments	10	10
Debt securities*	26,232	34,879
from this: Discount treasury tickets	22,644	-
from this: Government bonds	*3,588*	*31,870*
from this: Credit institution bonds	-	*3,009*
Total	**26,242**	**34,889**

**The securities portfolio was restructured during 2020. The Bank applied the contractual cash flow collection business model for securities purchased in 2020 and continuously sold its securities in the contractual cash flow collection and selling business model.*

The Equity instruments contain securities acquired for non-trading purposes by the Bank that its ownership ratio is under 20%. The table below presents the fair value of these shares as at 31 December 2021:

All figures in tables are in HUF million except otherwise noted

Shares	Fair Value at 31 December 2021
MTB Bank of Hungarian Savings Cooperatives Co. Ltd.	-
Central Body of Integrated Credit Institutions	10
Takarék Egyesült Szövetkezet	-
Total	**10**

The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2021	31 December 2020 (Revised presentation)	31 December 2020 (as previously presented)
Debt securities gross*	250,536	229,366	229,366
from this: Government bonds	227,899	223,025	223,025
from this: Mortgage bonds	3,983	4,018	4,018
from this: Corporate	18,653	2,323	2,323
Impairment on debt securities	(15)	(32)	(32)
Loans gross	*364,570*	325,479	*337,337*
from this: Due from banks	*331,955*	287,397	*287,397*
from this: Retail	*32,100*	37,588	*49,446*
from this: Corporate	*515*	494	*494*
Impairment on loans	(1,051)	(832)	(866)
from this: Due from banks	(9)	(2)	(2)
from this: Retail	(1,016)	(806)	(840)
from this: Corporate	(26)	(24)	(24)
Advances gross	387	845	845
Impairment on advances	(11)	(11)	(11)
Deposit from central bank and other banks gross	10,764	7,243	7,243
Impairment on deposit from central bank and other banks gross	(3)	(2)	(2)
Total	**625,177**	**562,056**	**573,880**

**The securities portfolio was restructured during 2020. The Bank applied the contractual cash flow collection business model for securities purchased in 2020 and continuously sold its securities in the contractual cash flow collection and selling business model.*

All figures in tables are in HUF million except otherwise noted

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	482	147	-	629
Collective	38	181	232	-	451
Total	**38**	**663**	**379**	**-**	**1,080**

The gross exposure of individual-impaired financial assets at amortised cost is HUF 2,056 million, and the gross exposure of collective-impaired financial assets at amortised cost is HUF 624,201 million at 31 December 2021. From the individual-impaired financial assets the gross corporate portfolio is HUF 515 million and the gross retail loan portfolio is HUF 1,546 million (related impairment HUF 601 million) at 31 December 2021. Among the collective-impaired financial assets, the gross corporate portfolio is HUF nil and the gross retail loan portfolio is HUF 30,554 million (related impairment HUF 415 million) at 31 December 2021.

31 December 2020 (Revised presentation)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	332	152	-	484
Collective	113	112	218	-	443
Total	**113**	**444**	**370**	**-**	**927**

31 December 2020	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	332	152	-	484
Collective	123	116	238	-	477
Total	**123**	**448**	**390**	**-**	**961**

All figures in tables are in HUF million except otherwise noted

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

	31 December 2021	31 December 2020 (Revised presentation)	31 December 2020 (as previously presented)
Loans*	9,787	11,823	0
Total	**9,787**	**11,823**	**0**

**The accounting policy has changed the classification due to comparative data see in Note 3.36*

Loans included in non-trading financial assets that are required to be measured at fair value through profit or loss are those groups of loans that do not pass the cash flow test. Gains on non-trading financial assets mandatorily at fair value through profit or loss amounted to HUF 438 million at 31 December 2021 (revised presentation value at 31 December 2020 is HUF 35 million, gain).

19. TANGIBLE ASSETS

31 December 2021	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	36	195	231
Increase	-	2	2
Decrease	-	(50)	(50)
Closing balance	36	147	183
Depreciation			
Opening balance	32	123	155
Annual depreciation	4	5	9
Decrease	-	(36)	(36)
Closing balance	36	92	128
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**55**	**55**

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.
Tangible assets of the separate financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 40 million as at 31 December 2021. (Note 21)

All figures in tables are in HUF million except otherwise noted

31 December 2020	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	358	420	778
Increase	-	1	1
Decrease *	(322)	(226)	(548)
Closing balance	36	195	231
Depreciation			
Opening balance	348	329	677
Annual depreciation	5	9	14
Decrease *	(321)	(215)	(536)
Closing balance	32	123	155
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**4**	**72**	**76**

**In 2020 the Bank scrapped and derecognized its tangible assets that had become redundant.*

Tangible assets of the separate financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 49 million as at 31 December 2020. (Note 21)

All figures in tables are in HUF million except otherwise noted

20. INTANGIBLE ASSETS

31 December 2021	Software	Other intangible assets	Total
Gross value			
Opening balance	1,178	-	1,178
Increase	17	-	17
Decrease	-	-	-
Closing balance	**1,195**	**-**	**1,195**
Depreciation			
Opening balance	872	-	872
Annual depreciation	22	-	22
Decrease	-	-	-
Closing balance	**894**	**-**	**894**
Impairment			
Opening balance	98	-	98
Increase	-	-	-
Decrease	-	-	-
Closing balance	98	-	98
Net value	**203**	**-**	**203**

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2021.

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

All figures in tables are in HUF million except otherwise noted

31 December 2020	Software	Other intangible assets	Total
Gross value			
Opening balance	1,238	64	1,302
Increase	1	-	1
Decrease	(61)	(64)	(125)
Closing balance	**1,178**	**-**	**1,178**
Depreciation			
Opening balance	893	64	957
Annual depreciation	25	-	25
Decrease	(46)	(64)	(110)
Closing balance	**872**	**-**	**872**
Impairment			
Opening balance	104	-	104
Gross value	-	-	-
Decrease	(6)	-	(6)
Closing balance	98	-	98
Net value	**208**	**-**	**208**

21. IFRS 16 LEASES

Right-of-use asset

	31 December 2021	31 December 2020
Owned property, plant and equipment	55	76
Right-of-use assets, expect investment properties	40	49
Total property, plant and equipment	**95**	**125**

All figures in tables are in HUF million except otherwise noted

Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2021	31 December 2020
Short term	28	26
Long term	20	38
Total lease liabilities	**48**	**64**

Maturity analysis - undiscounted contractual payments

	31 December 2021	31 December 2020
Up to 1 year	28	26
1 year to 5 years	20	38
Total undiscounted lease liabilities	**48**	**64**

Right-of-use asset

	Property	Company Car	Total
Opening balane at 1 January 2020	**56**	**0**	**56**
Increase	-	12	12
Amortization for the year	(17)	(2)	(19)
Decrease	-	-	-
Balance at 31 December 2020	**39**	**10**	**49**
Increase	3	13	12
Amortization for the year	(15)	(3)	(18)
Decrease	(6)	(1)	(3)
Balance at 31 December 2021	**21**	**19**	**40**

Total cash outflow for leases

	31 December 2021	31 December 2020
Total cash outflow for leases	(16)	(25)

All figures in tables are in HUF million except otherwise noted

Items related to lease liabilities presented in profit or loss

	31 December 2021	31 December 2020
Interest expense on the lease liabilities	(1)	(1)
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	-
Income from subleasing right-of-use assets	-	-
Expenses related to short-term leases	-	-
Expenses related to leases of low-value assets, expect the expense relating to short-term leases of low-value assets	-	-
Gains or losses arising from sale and leaseback transactions	-	-
Total	**(1)**	**(1)**

Items presented in the statement of cash flows

	31 December 2021	31 December 2020
Operating cash flow		
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	-	-
Cash payments for the principal portion of the lease liability	(16)	(25)

22. OTHER ASSETS

	31 December 2021	31 December 2020
Prepaid expenses*	303	38
Settlements with the Hungarian State	-	-
Repossessed collateral	2	2
Reclaimable taxes**	102	117
Others	4	6
Total	**411**	**163**

** A significant part of the prepaid expenses is the revenue not yet invoiced, recognised under the SLA settlement agreement between the members of the MTB Bank group.*
*** A significant amount of reclaimable taxes has been accrued due to the special epidemiological tax, as the Goverment Decree No. 108/2020 (IV.14.) on the special tax on credit institutions related to the epidemiological situation. The tax paid can be deducted from the special tax payment obligation of financial institutions in the next 5 years (2021-2025).*

All figures in tables are in HUF million except otherwise noted

23.FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 December 2021		31 December 2020	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	6,121	5,849	6,484	5,970
Floating interest	-	-	-	-
Total mortgage bonds	**6,121**	**5,849**	**6,484**	**5,970**
Total Financial liabilities designated at fair value through profit or loss	**6,121**	**5,849**	**6,484**	**5,970**

The total credit risk which is due to financial liabilities through profit or loss was HUF -0.09 million as of 31 December 2021 (31 December 2020: HUF 4.2 million).

24. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2021	31 December 2020
Due to banks	-	1,259
Loans received*	263,131	212,989
Debt securities issued	321,714	322,551
Other financial liabilities	689	1,519
Total	**585,534**	**538,318**

**To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset.*
Similarly to the ECB’s steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity. The first tender took place on March 25th. The fixed rate (valid through the entire maturity of the loan) is identical to the prevailing base rate (it was 0.9% at its launch, reduced to 0.75% on June 24th), resulting in a 50 to 60bp lower financing cost than in the case of interbank financing.
The Bank actively participated at these tenders, and up to the end of 2021 it obtained HUF 235,766 million (31 December 2020: HUF 212,989 million) long-term (3- and 5-year) loans, which is used to purchase securities with favourable yield characteristics.

All figures in tables are in HUF million except otherwise noted

24.1. Issued debt securities

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

	31 December 2021		31 December 2020	
	Net book value	Face value	Net book value	Face value
Non-listed mortgage bonds				
Listed mortgage bonds				
Fixed interest	290,985	286,764	292,039	283,164
Floating interest	30,729	30,406	30,512	30,406
Total mortgage bonds	**321,714**	**317,170**	**322,551**	**313,570**
Total issued securities	**321,714**	**317,170**	**322,551**	**313,570**

All figures in tables are in HUF million except otherwise noted

Mortgage bonds

Mortgage bonds are transferable, registered securities and, pursuant to the Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds (Mortgage Act), can be issued only by mortgage banks.

The obligations arising from the Mortgage Bonds are equal in rank to each other (pari passu) in the event of the liquidation of the Issuer or in the enforcement proceedings initiated against it. Unlike the Issuer's other unsecured, non-subordinated obligations, they enjoy a special status under the Section 20 and 21 of the Mortgage Act, given that these claims do not form part of the liquidation assets.

The Mortgage Act provides that mortgage credit institution must at all times have collateral in excess of the outstanding nominal value and interest of the outstanding mortgage bonds both on nominal and based on present value calculation.

The independent property supervisor monitors and certifies the permanent availability of the collateral for the mortgage bonds, as well as the registration of the collateral providing the ordinary collateral of the mortgage bonds, of their real estate registration data and loan to value, as well as of the ordinary and additional collateral.

These collaterals may be (i) ordinary collaterals such as the principal arising (including the state subsidies) from a mortgage loans or a refinancing mortgage loan and interest due under the contract provided in accordance with the standard collateral requirements, the repurchase price of an independent lien and the related refinancing interest, and (ii) additional collateral such as, typically, government bonds and related interest and any principal and interest receivable guaranteed by the government, or allowed by the Mortgage Act.

In case of loans secured by a residential real estate the principal arising from a mortgage loan can be considered as ordinary collateral up to 70% of the mortgage lending value of the property. In case of loans secured by commercial real estate the limit is 60%.

The Mortgage Act requires the proportionate between ordinary and additional collaterals: at least 80% of the total collateral must be ordinary collateral.

Bonds

From 2007 the Bank issued senior unsecured bonds in addition to mortgage bonds. However, the Bank did not issue senior unsecured bonds since 2019.

Bonds are registered, dematerialized, transferable debt securities issued on the basis of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December).

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

25. PROVISIONS

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

2021	Provision for loan commitments and guarantees	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2021	**1**	**15**	**100**	**116**
Increase in the period	-	-	-	-
Derecognition / Use of provision in the period	-	(2)	(86)	(88)
Closing balance at 31 December 2021	**1**	**13**	**14**	**28**

Individual Investors Interest Association (TEBÉSZ) filed a lawsuit in the Capital Court for the annulment of the Company's resolutions number; 4/2019 (08.27.), 6/2019 (08.27.) and 7/2019 (08.27.) taken on the General Meeting of the Company held on August 27, 2019, and also asked the suspension of the enforcement of the resolutions. The Court of first instance rejected the lawsuit of TEBÉSZ on 17 of December 2020. JZB has won the lawsuit in the second instance in 2021. In view of the above mentioned, provision was not set up in 2020 and 2021.

2020	Provision for loan commitments and guarantees	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2020	**3**	**9**	**497**	**509**
Increase in the period	17	6	-	23
Utilization in the period	(19)	-	(397)	(416)
Closing balance at 31 December 2020	**1**	**15**	**100**	**116**

The net balance of provisions for losses and release of provisions in 2020 - HUF 393 million - of which HUF 3 million was recognized in the separate Statement of Profit or Loss under provisions, and HUF 396 million was recognized in other operating income related to expenses accounted for under SLA services costs as an item related to a billed IT rollout.

All figures in tables are in HUF million except otherwise noted

26. OTHER LIABILITIES

	31 December 2021	31 December 2020
Taxes payable	33	36
Accrued expenses	793	124
Income accounting	1	-
Other	1	3
Total	**828**	**163**

27. SHARE CAPITAL

27.1. Ownership structure

In 2021 there was no significant changes in the share capital and ownership structure of the Bank. The MTB Bank of Hungarian Savings Cooperatives Co. Ltd. bought a big part of the Bank shares became the only directive owner.

The table shows the ownership structure of the owners from different sectors as follows:

	31 December 2021		31 December 2020	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	53.28	57,801,776	52.41	56,859,406
Foreign institutional investors	0.01	6,343	0.03	32,298
Domestic private investors	2.82	3,057,946	3.68	3,979,348
Foreign private investors	0.01	8,621	0.01	11,760
Employees, directors and senior management	0.00	0	0.00	0
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	4.45	4,832,225	4.45	4,832,225
Other	0.04	39,498	0.03	31,372
Subtotal	*60.84*	*66,000,010*	*60.84*	*66,000,010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
Subtotal	*13.05*	*14,163,430*	*13.05*	*14,163,430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Subtotal	*26.11*	*2,832,686*	*26.11*	*2,832,686*
Total	**100**	**82,996,126**	**100.00**	**82,996,126**

All figures in tables are in HUF million except otherwise noted

27.2. Owners with more than 5% ownership relating to listed series

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	53,117,887	80.48%
Hungarian National Asset Management Inc.	no	4,832,225	7.32%
Takarék Limited Investment Fund	no	3,808,180	5.77%
Total		**61,758,292**	**93.57%**

27.3. Owners with more than 5% ownership relating to total equity

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	70,114,003	88.13%
Total		**70,114,003**	**88.13%**

27.4. Treasury shares purchased

	31 December 2021	31 December 2020
Opening balance	207	207
Purchase	-	-
Closing balance	**207**	**207**

During the reporting period there were no changes in the cumulative balance of Treasury share purchased.

27.5. Other reserve

	31 December 2021	31 December 2020
General reserve	1,439	1,164
Closing balance	**1,439**	**1,164**

27.5.1. General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 1,439 million as at 31 December 2021 (General reserve was HUF 1,164 million as at 31 December 2020).

All figures in tables are in HUF million except otherwise noted

27.6. Cumulated other comprehensive income

	2021	2020
Opening balance	260	992
Cumulated other comprehensive income	**(493)**	**(732)**
Items that will not be reclassified to profit or loss	9	9
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Income tax relating to items that will not be reclassified	9	9
Items that may be reclassified to profit or loss	**(502)**	**(741)**
Hedging instruments	183	3
Debt instruments at fair value through other comprehensive income	(685)	(744)
Income tax relating to items that may be reclassified to profit or loss	-	-
Closing balance	**233**	**260**

28. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the separate statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.
Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2021	31 December 2020
Loan commitments	24,391	22,120
Total	**24,391**	**22,120**

All figures in tables are in HUF million except otherwise noted

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

29.1. Loans and advances

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

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

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

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

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

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

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

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

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

	31 December 2021		31 December 2020 (Revised presentation)		31 December 2020 (as previously presented)	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
Loans, advances and securities	625,177	598,072	562,056	591,922	573,880	580,101

29.2. Fair value of other items in the statement of financial position

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

29.3. Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

	Fair value		Notional amount	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
IRS	-	81	-	8,879
MIRS	2,359	22	17,751	7,443
Total trading derivatives	**2,359**	**103**	**17,751**	**16,322**
Hedge deals	-	926	-	24,850
Total derivative financial assets	**2,359**	**1,029**	**17,751**	**41,172**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
IRS	2,299	14	17,501	3,922
MIRS	10	74	151	5,660
Total trading derivatives	**2,309**	**88**	**17,652**	**9,582**
Hedge deals	1,112	284	24,850	4,799
Total derivative financial liabilities	**3,421**	**372**	**42,502**	**14,381**

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

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

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

For the Bank's existing derivative contracts designated as fair value hedges, the purpose of the transaction is to exchange fixed interest rate contracts for floating rate transactions and to hedge the resulting fair value risk. The parameters of the hedging instrument (maturity, amount, currency, interest rate, etc.) and thus its cash flow are the same as the parameters of the hedged security and the cash flow of capital and interest.

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly. The Bank introduced hedge accounting in the second quarter of 2019 for swap transactions in the individual IFRS financial statements of Bank. The effect of this is shown in the table on December 31,2021.

29.4. Fair value hedge transactions

31 December 2021

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items	
IRS	Issued mortgage bonds	1,112	(24,293)	1,921	(2,185)	

All figures in tables are in HUF million except otherwise noted

29.5. Fair value of financial instruments carried at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank calculates the fair value of non-trading financial assets mandatorily at fair value through profit or loss on an individual basis.
The applied valuation model takes into account the following:

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

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

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

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

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

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

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

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

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

	31 December 2021		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	2,359	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	9,726
Securities at fair value through other comprehensive income	22,644	3,598	-
Derivatives – Hedge accounting	-	-	-
Total assets carried at fair value	**22,644**	**5,957**	**9,726**

	31 December 2021		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	2,309	-
Financial liabilities designated at fair value through profit or loss	-	6,121	-
Derivatives – Hedge accounting	-	1,112	-
Total assets carried at fair value	**-**	**9,542**	**-**

	31 December 2020 (Revised presentation)		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	103	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	11,823
Securities at fair value through other comprehensive income	31,880	3,009	-
Derivatives – Hedge accounting	-	926	-
Total assets carried at fair value	**31,880**	**4,038**	**11,823**

All figures in tables are in HUF million except otherwise noted

	31 December 2020		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	103	-
Securities at fair value through other comprehensive income	31,880	3,009	-
Derivatives – Hedge accounting	-	926	-
Total assets carried at fair value	**31,880**	**4,038**	**-**

	31 December 2020		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	88	-
Financial liabilities designated at fair value through profit or loss	-	6,484	-
Derivatives – Hedge accounting	-	284	-
Total assets carried at fair value	**-**	**6,856**	**-**

Instruments' movements in Level 3	Non-trading financial assets mandatorily at fair value through profit or loss 2021	Non-trading financial assets mandatorily at fair value through profit or loss 2020
Opening balance	**11,823**	**14,373**
Statement of profit or loss	-	-
Profit	438	35
Other comprehensive income	-	-
Transactions	-	-
Purchase/portfolio growth	-	-
Sale of assets/Settlement/ Derecognition/	(2,474)	(2,585)
Tansfers	-	-
Transfer to Level 3	-	-
Transfer from Level 3	-	-
Closing balance	**9,787**	**11,823**

All figures in tables are in HUF million except otherwise noted

30. RISK MANAGEMENT

30.1. Overview

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). Due to the membership of Integration the scope of the risk management policies of the Integration, as well as risk strategy have been extended to the Bank.

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

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to Credit Institution Act.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of credit institutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary (MNB) authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December, after MNB approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company.

Following the transfer of the in-kind contributions, the financial holding company will exercise prudential control and group management functions over the three banking groups.

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

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

The risk capacity of Takarék Mortgage Bank Plc. should be in line with the financial resources that are available to cover potential losses. In order to this the current and future economic, capital requirements and the capital requirements under Pillar 1 for quantifiable risk types are calculated.

Prudent risk taking is a fundamental value for the Bank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

The Risk Strategy is based on the following main pillars:

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

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

30.2. Risk management structure

Board of Directors
The Boards of Directors of the banks are responsible for the Takarék Mortgage Bank's and Takarékbank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership Takarék Mortgage Bank follows the Integration Risk Policy/ Strategy, applies uniform risk management policies and reports about its risks to the Central Bodies of the Integration (IHKSZ) and to the Integration Business Management Organization (MTB Ltd).
Based on regular risk exposure reports, the Boards of Directors evaluate the risk management activities and the level of exposure of the banks. If the level of exposure undertaken by the banks does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board
The Supervisory Board of the Bank is responsible for monitoring the overall risk and risk management processes within the Bank. In this context it also supervises and monitors the suitability of methods and systems applied by the Bank in order to ensure compliance with the statutory capital adequacy requirements.

Risk Control and Assets and Liabilities Committee (KK-EFB)
The Risk Control and Assets and Liabilities Committee exercise its authority on an individual level referring to the Bank.
The responsibilities of the Risk Control and Asset-Liability Committee include asset-liability management, planning / controlling, pricing, sales, product development, market risk management, liquidity risk management, credit and counterparty risk, concentration risk, and operational risk management - risk policy / risk strategy - , capital management.
It constantly monitors the liquidity position of Takarék Mortgage Bank and makes proposals on its interest rate policy. It creates and continuously maintains a balance between income and liquidity, always adhering to the principles of prudent operation.

Refinancing Lending Committee
The purpose of the operation of the Refinancing Lending Committee is to make the necessary decisions to establish certain terms and conditions of the Bank's refinancing business that will be concluded with a particular partner bank (framework agreement).

Methodology Committee (MB)

The competence of the Methodology Committee is exercised at the individual level of MBH and the Bank.

The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees. In detail:

• Defining risk strategy, risk self-assessment, risk appetite and related limits - proposing to the Board of Directors, allocating limits to group members

• Setting concentration and country risk limits, approving risk management principles, allocating and re-measuring limits

• Approval of changes in risk parameters affecting risk appetite, including risk methodological proposals related to product development

• Approval of risk regulations

• Regular and adhoc risk reports (credit risk, operational risk, large exposures, internal credit, other risks, except market and liquidity, which is the responsibility of the EFB)

• ICAAP-SREP methodological changes, parameters, credit ratings, etc. approval (Pillar 1 and Pillar 2, including market risk topics), monitoring, supervisory control

• Develop and monitor an SREP action plan

Modeling framework changes, model validation system approval

Department of Risk Management (Strategic risk management) is responsible for determining the requirements necessary for the prudent operation. They develop the risk guidelines and manage credit, liquidity, market and operational risk.

Internal Audit

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

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

Risk evaluation and reporting system

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

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Bank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure.

The Boards of Directors and The Supervisory Board evaluate the reports on risks on a quarterly basis.

30.3. Risk mitigation

Interest rate and exchange rate risks

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

Credit risk

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

The Bank is suspended the new loan placement activity based on strategy decision during 2018, keep handling the existing loan portfolio. There through the Bank monitors client and partner rating on an ongoing basis.

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

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

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

The Bank applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

30.4. Credit risk

30.4.1. Credit rating

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

Impairment

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

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

Staged Approach to the Determination of Expected Credit Losses

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

Stage 1:
The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

Stage 2:
The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3:
The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Bank definition of default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios as described below. Financial Assets that are credit impaired upon initial recognition are categorised purchased or originated credit-impaired (POCI) with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these (POCI) assets is discussed further below.

Significant Increase in Credit Risk

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

Credit Impaired Financial Assets in Stage 3

The Bank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.
The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

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

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.
Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

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

Default

The Bank uses the CRR definition of default as a primary indicator of loss events in accordance with Article 178 (1) of CRR.
A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:
(a) the Bank considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security;
(b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

Purchased or Originated Credit Impaired Financial Assets

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

Write-off

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

30.4.2. Model Descriptions - Expected Credit Loss

Stage determination

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

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

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

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

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.
Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk. The expected lifetime is estimated by taking into consideration historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. Where such facilities are subject to an individual review by Credit Risk Management, the lifetime for calculating expected credit losses.

Forward-Looking Information

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

To incorporate forward-looking information into allowance for credit losses, the Group uses two key elements: As its base scenario, the Bank uses the macroeconomic forecasts provided by

Hunarian National Bank. These forecasts cover a number of macroeconomic variables (e.g., GDP, unemployment rates) and reflect Regulator search's view as to the most likely development of those variables, typically over a two year period and updated quarterly.

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

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

Assumptions and the Estimation Techniques

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

The Bank uses three main components to measure ECL. These are PD, Loss Given Default (LGD) and Exposure at Default (EAD).

Incorporating forecasts of future economic conditions into the measurement of expected credit losses influences the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect economic forecasts.

The expected credit loss calculation for stage 3 distinguishes between transactions in homogeneous and non-homogenous portfolios, and purchased or originated credit-impaired transactions. For transactions that are in Stage 3 and in a homogeneous portfolio, a similar approach as for Stage 1 and 2 transactions is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal to 100 %.

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

The one-year PD for counterparties is derived from our internal PD model. The Bank assigns a PD to each relevant counterparty credit exposure for our exposure.

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

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle (TTC) matrices, which are derived from a multi-year rating history. For the next two years, economic forecasts are available. These forecasts are used to transform the TTC matrices into point-in-time (PIT) rating migration matrices.

LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.

The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

IFRS 9 credit risk tables are presented below.*Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2021*

31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	**0**	-	-	-	**0**
Cash balances at central banks	**3**	-	-	-	**3**
Investment grade	*3*	-	-	-	3
Other demand deposits	**226**	-	-	-	**226**
Investment grade	*226*	-	-	-	226
Securities at fair value through other comprehensive income	**26 232**	-	-	-	**26 232**
Investment grade	*26 232*	-	-	-	26 232
Securities at amortized cost	**250 535**	-	-	-	**250 535**
Investment grade	*250 535*	-	-	-	250 535
Due from banks	**342 718**	**0**	**0**	**0**	**342 718**
Investment grade	342 718				342 718
Default grade		-	-	-	0
Non-investment grade		-	-	-	0
Retail	**16 146**	**14 297**	**1 657**	**0**	**32 100**
Investment grade	*16 140*	*14 023*	-	-	30 163
Default grade	-	-	*1 571*	-	1 571
Non-investment grade	*6*	*274*	*86*	-	366

Credit risk exposure - Gross carrying amount per asset type, and loss allowance –

All figures in tables are in HUF million except otherwise noted

31 December 2021 (continued)

31 December 2021 (continued)	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Corporate	4	-	511	-	515
Investment grade	*4*	-	-	-	*4*
Default grade	-	-	*511*	-	*511*
Non-investment grade	-	-	-	-	-
Advances	***376***	**-**	***11***	**-**	**387**
Investment grade	*376*	-	-	-	*376*
Non-investment grade	-	-	*11*	-	*11*
Total gross carrying amount	**636,240**	**14,297**	**2,179**	**-**	**652,716**
Loss allowance	38	663	379	**-**	1,080
Carrying amount	**636,202**	**13,634**	**1,800**	**-**	**651,636**

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2020

31 December 2020 (Revised presentation)	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
Cash balances at central banks	*872*	-	-	-	*872*
Investment grade	*872*	-	-	-	*872*
Other demand deposits	627	-	-	-	627
Investment grade	*627*	-	-	-	*627*
Securities at fair value through other comprehensive income	34,929	-	-	-	34,929
Investment grade	*34,929*	-	-	-	*34,929*
Securities at amortized cost	229,366	-	-	-	229,366
Investment grade	229,366	-	-	-	229,366
Due from banks	294,640	-	-	-	294,640
Investment grade	*294,640*	-	-	-	*294,640*
Default grade	-	-	-	-	-
Non-investment grade	-	-	-	-	-
Retail	28,275	7,424	1,889	-	37,588
incl.: gross carrying amount of client effected relief program from retail loan	***17,257***	***1,264***	***1,472***	**-**	***19,993***
Investment grade	*27,121*	*6,719*	-	-	*33,840*
Default grade	-	-	*1,889*	-	*1,889*
Non-investment grade	*1,154*	*705*	-	-	*1,859*

All figures in tables are in HUF million except otherwise noted

*Credit risk exposure - Gross carrying amount per asset type, and loss allowance –
31 December 2020*

31 December 2020 (continued) (Revised presentation)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Corporate	7	-	487	-	494
incl.: gross carrying amount of client effected relief program from corporate loan	**-**	**-**	**114**	**-**	**114**
Investment grade	*7*	-	-	-	*7*
Default grade	-	-	*487*	-	*487*
Non-investment grade	-	-	-	-	-
Advances	834	-	11	-	845
Investment grade	*834*	-	-	-	*834*
Default grade	-	-	*11*	-	*11*
Non-investment grade	-	-	-	-	-
Total gross carrying amount	**589,551**	**7,424**	**2,387**	**-**	**599,362**
Loss allowance	113	444	370	**-**	927
Carrying amount	**589,438**	**6,976**	**2,017**	**-**	**598,436**

All figures in tables are in HUF million except otherwise noted

Impairment

31 december 2021	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail loans	1,657	332	1,325
Corporate loans	511	36	475
Advances	11	11	-
Total credit-impaired assets	**2,179**	**379**	**1,800**

31 december 2021	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	482	147	629
Collective	38	181	232	451
Total	**38**	**663**	**379**	**1,080**

31 december 2020 (Revised presentation)	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	332	152	484
Collective	113	112	218	443
Total	**113**	**444**	**370**	**927**

All figures in tables are in HUF million except otherwise noted

31 december 2020 as previously presented	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	332	152	484
Collective	123	116	238	477
Total	**123**	**448**	**390**	**961**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2021

Asset type all	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2021	**113**	**444**	**370**	**-**	**927**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(11)	30	-	-	19
Transfers from Stage 1 to Stage 3	(1)	-	59	-	58
Transfers from Stage 2 to Stage 1	-	(1)	-	-	(1)
Transfers from Stage 2 to Stage 3	-	(7)	36	-	29
Transfers from Stage 3 to Stage 1	-	-	(1)	-	(1)
Transfers from Stage 3 to Stage 2	-	1	(36)	-	(35)
New financial assets originated or purchased	3	-	-	-	3
Changes in PDs/LGDs/EADs	(64)	208	68	-	212
Modification of contractual cash flows of financial assets	-	-	-	-	-
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(3)	(13)	(115)	-	(131)
Impairment loss as at 31 December 2021	**37**	**662**	**381**	-	**1,080**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2021

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2021	**113**	**444**	**370**	**-**	**927**
Due from banks	**8**	**-**	**-**	**-**	**8**
Changes in PDs/LGDs/EADs	5	-	-	-	5
New financial assets originated or purchased	3	-	-	-	3
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Retail	**(18)**	**214**	**10**	**-**	**206**
Transfers:					
Transfers from Stage 1 to Stage 2	(11)	30	-	-	19
Transfers from Stage 1 to Stage 3	(1)	-	59	-	58
Transfers from Stage 2 to Stage 1	-	(1)	-	-	(1)
Transfers from Stage 2 to Stage 3	-	(7)	36	-	29
Transfers from Stage 3 to Stage 1	-	-	(1)	-	(1)
Transfers from Stage 3 to Stage 2	-	1	(36)	-	(35)
Changes in PDs/LGDs/EADs	(4)	205	67	-	268
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(2)	(14)	(115)	-	(131)

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2021 (continued)

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Corporate	**-**	**4**	**1**	**-**	**5**
Changes in PDs/LGDs/EADs	-	4	1	-	5
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Securities	**(66)**	**-**	**-**	**-**	**(66)**
Changes in PDs/LGDs/EADs	(66)	-	-	-	(66)
Impairment loss as at 31 December 2021	**37**	**662**	**381**	**-**	**1,080**

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2020 Revised presentation

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Impairment as at 1 January 2020	**25**	**405**	**572**	**0**	**1 002**
Due from banks	**(1)**	**0**	**0**	**0**	**(1)**
Changes in PDs/LGDs/EADs	**(2)**				(2)
New financial assets originated or purchased	**1**				1
Retail	**9**	**37**	**(151)**	**0**	**(105)**
Transfers:					0
Transfers from Stage 1 to Stage 2	(2)	14	0	0	12
Transfers from Stage 1 to Stage 3	0	0	6	0	6
Transfers from Stage 2 to Stage 1	1	(7)	0	0	(6)
Transfers from Stage 2 to Stage 3	0	(7)	37	0	30
Transfers from Stage 3 to Stage 1	0	0	(27)	0	(27)
Transfers from Stage 3 to Stage 2	0	1	(9)	0	(8)
Changes in PDs/LGDs/EADs	27	36	50	0	113
Modification of contractual cash flows of financial assets	0	0	(3)	0	(3)
Financial assets derecognised during the period other than write-offs	(17)	0	(205)	0	(222)

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2020 Revised presentation (continued)

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Corporate	**-**	**2**	**(51)**	**-**	**(49)**
Changes in PDs/LGDs/EADs	-	2	(51)	-	(49)
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Securities	**80**	**-**	**-**	**-**	**80**
Changes in PDs/LGDs/EADs	80	-	-	-	80
Impairment loss as at 31 December 2020	**113**	**444**	**370**	**-**	**927**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2020 as previously presented

Asset type all	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2020	**25**	**405**	**572**	**-**	**1,002**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(2)	14	-	-	12
Transfers from Stage 1 to Stage 3	-	-	6	-	6
Transfers from Stage 2 to Stage 1	1	(7)	-	-	(6)
Transfers from Stage 2 to Stage 3	-	(7)	37	-	30
Transfers from Stage 3 to Stage 1	-	-	(27)	-	(27)
Transfers from Stage 3 to Stage 2	-	1	(9)	-	(8)
New financial assets originated or purchased	1	-	-	-	1
Changes in PDs/LGDs/EADs	115	42	19	-	176
Modification of contractual cash flows of financial assets	-	-	(3)	-	(3)
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(17)	-	(205)	-	(222)
Impairment loss as at 31 December 2020	**123**	**448**	**390**	**-**	**961**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2020 as previously presented (continued)

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2020	**25**	**405**	**572**	**-**	**1,002**
Due from banks	**(1)**	**-**	**-**	**-**	**(1)**
Changes in PDs/LGDs/EADs	(2)	-	-	-	(2)
New financial assets originated or purchased	1	-	-	-	(1)
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Retail	**19**	**41**	**(131)**	**-**	**(71)**
Transfers:					
Transfers from Stage 1 to Stage 2	(2)	14	-	-	12
Transfers from Stage 1 to Stage 3	-	-	6	-	6
Transfers from Stage 2 to Stage 1	1	(7)	-	-	(6)
Transfers from Stage 2 to Stage 3	-	(7)	37	-	30
Transfers from Stage 3 to Stage 1	-	-	(27)	-	(27)
Transfers from Stage 3 to Stage 2	-	1	(9)	-	(8)
Changes in PDs/LGDs/EADs	37	40	70	-	148
Modification of contractual cash flows of financial assets	-	-	(3)	-	(3)
Financial assets derecognised during the period other than write-offs	(17)	-	(205)	-	(222)

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2020 as previously presented (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Corporate	**-**	**2**	**(51)**	**-**	**(49)**
Changes in PDs/LGDs/EADs	-	2	(51)		(49)
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Securities	**80**	**-**	**-**	**-**	**80**
Changes in PDs/LGDs/EADs	80	-	-	-	80
Impairment loss as at 31 December 2020	**123**	**448**	**390**	**-**	**961**

All figures in tables are in HUF million except otherwise noted

Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Provision as at 1 January 2020	**1**	**1**	**1**	**3**
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	-	-	-	-
Transfers from Stage 1 to Stage 3	(1)	-	-	(1)
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-	-	(1)	(1)
Provision as at 31 December 2020	**-**	**1**	**-**	**1**
Provision as at 1 January 2021	**-**	**1**	**-**	**1**
Movements with P&L impact				
Transfers:				
Transfers from Stage 2 to Stage 3	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-	-	-	-
Provision as at 31 December 2021	**-**	**1**	**-**	**1**

Notes to the Separate Financial Statements

Exposure to credit risk on loan commitments and financial guarantees

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail	73	56	-	129
Total exposure to credit risk	**73**	**56**	**-**	**129**

31 December 2020	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail	213	51	-	264
Total exposure to credit risk	**213**	**51**	**-**	**264**

All figures in tables are in HUF million except otherwise noted

30.4.3. Payment relief programs

Client effected by payment relief program 2020

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay installments for all corporate and retail loan agreements from 19 March 2020.
The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing it Act 637/2020 (XII.22.), (second moratorium) entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021.
Unpaid interest accrued during the moratorium, together with the installment due for the remaining term, shall be paid in equal annual installments during the term of the moratorium after the expiration of the moratorium on payment. The monthly installment cannot increase due to unpaid interest and principal. The term is extended accordingly. Due to the moratorium, the customer may at any time decide whether or not to take advantage of the client effected by payment relief program. The modification loss due to the program was calculated based on the expected cash flow, which ones are estimated under this legislation on 31 December 2020.
Takarék Mortgage Bank modified the impairment methodology in accordance with the legislation and recommendations after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Bank placed even more emphasis on this activity.
In the individual monitoring processes, a stricter procedure was applied, and new methodologies were introduced to identify companies in a deteriorating risk situation. In addition, the Bank has recalculated the parameters of the previously applied IFRS, taking into account the expected macroeconomic effects. This ensured that appropriate loss levels were established for the different credit risk categories.

Financial assets modified during the period 31 December 2020	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	17,447	2,894	20,341
Loss allowance before modification	(27)	(225)	(252)
Net amortised cost before modification	17,420	2,669	20,089
Net modification gain/(loss) (change in gross carrying amount)	(190)	(44)	(234)
Impairment gain or loss	-	3	3
Net amortised cost after modification	**17,230**	**2,628**	**19,858**

All figures in tables are in HUF million except otherwise noted

Clients affected by the payment relief programs / Number of loans in 2020

31 december 2020	Number of loans	Outstanding balance	% of portfolio
Retail loans	5,736	19,750	40.63 %
Corporate loans	1	108	23.08 %
Total (retail and corporate loans)	**5,737**	**19,858**	**40.88%**

Clients affected by the payment relief programs / Carrying amount of the loans in 2020

31 December 2020	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*17,257*	*1,264*	*1,472*	*19,993*
Investment grade	16,351	695	-	17,046
Default grade	-	35	1,472	1,507
Non-Investment grade	905	534	-	1,439
Corporate loans	-	-	114	114
Default grade	-	-	114	114
Gross carrying amount	17,257	1,264	1,586	20,107
Allowances for credit losses	(26)	(16)	(207)	(249)
Carrying amount	**17,231**	**1,248**	**1,379**	**19,858**

In the tables above, the loans covered by the payment facilitation scheme include the actual recipients. Book value represents IFRS exposure on 31 December 2020.

Client effected by payment relief program 2021

In 2021 the moratorium on repayment has been prolonged until 31 October 2021 with unchanged conditions based on the Government Decree 536/2021. about the amendment of Government Decree No. 637/2020 (XII.21.) on the introduction of the special rules of the payment moratorium related to the state of emergency.
The modification loss due to the amendment of the legislation was updated with a 4-month extension.

Client effected by payment relief program 2021 (based on statement about repayment moratorium)

Those financially disadvantaged clients who made a separate declaration until 31 October 2021 (filling a statement about repayment moratorium) can participate in the moratorium until 30 June 2022. The modification loss under this legislation was calculated based on the expected payment schedules as of 31 October 2021.
The below table contains information about these eligible clients:

All figures in tables are in HUF million except otherwise noted

Financial assets modified during the period 31 December 2021 (based on statement about repayment moratorium)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5	2,630	2,635
Loss allowance before modification	-	(121)	(121)
Net amortised cost before modification	5	2,509	2,514
Net modification gain/(loss) (change in gross carrying amount)	-	(12)	(12)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5**	**2,497**	**2,502**

Clients affected by the payment relief program (based on statement about repayment moratorium) / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	646	2,501	8.03%
Total (retail and corporate loans)	**646**	**2,502**	**8.03%**

Clients affected by the payment relief programs (based on statement about repayment moratorium) / Carrying amount of the loans in 2021

31 December 2021	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*5*	*1,861*	*757*	*2,623*
Investment grade	*5*	*1,860*	*-*	*1,865*
Default grade	*-*	*1*	*757*	*758*
Gross carrying amount	*5*	*1,861*	*757*	*2,623*
Allowances for credit losses	*-*	*(8)*	*(113)*	*(121)*
Carrying amount	***5***	***1,853***	***644***	***2,502***

<u>Clients effected by interest rate cap program 2021</u>

Based on Government Decree No. 782/2021 (XII.24.) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 30 June

All figures in tables are in HUF million except otherwise noted

2022 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.
The modification loss under this legislation was calculated based on the expected payment schedules as of 31 December 2021.

Financial assets modified during the period ended 31 December 2021 in case of contracts effected by interest rate cap program	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5,465	5,159	10,624
Loss allowance before modification	(4)	(160)	(164)
Net amortised cost before modification	5,461	4,999	10,460
Net modification gain/(loss) (change in gross carrying amount)	(51)	(47)	(98)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5,410**	**5,222**	**10,632**

Clients affected by interest rate cap program / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	4,738	10,632	33.26%
Total (retail and corporate loans)	**4,738**	**10,632**	**32.76%**

Clients affected by interest rate cap program /Carrying amount of the loans in 2021

31 December 2021	Non-impaired loans		Impaired loans	Total
	Stage 1	Stage 2	Stage 3	
Retail loans	*5,414*	*4,184*	*927*	*10,524*
Investment grade	*5,408*	*4,021*	-	*9,430*
Default grade	-	*163*	*927*	*1,090*
Non-Investment grade	*4*	-	-	*4*
Loss allowance	(4)	(17)	(143)	(163)
Carrying amount	***5,410***	***4,167***	***784***	***10,362***

All figures in tables are in HUF million except otherwise noted

30.4.4. Forborne loans

The Bank recognizes a receivable that contains concession as a restructured loan when the original contract was modified due to avoid the non-payment of the receivable in cases when the debtor was not able to fulfil the original contractual requirements on repaying the loan or would not be able to fulfil those requirements without those concessions made.

Modification of contractual terms that meets the criteria of concession:

a) modifications of contractual terms that qualify as concessions can be the followings:
    - postponement on repayment (on principal and on interest as well) for a transitional period (grace period)
    - instalment
    - modification of interest rate, repricing (in a form of discount)
    - capitalization of interest
    - change in currency
    - prolonging the maturity of the loan
    - rescheduling the repayments
    - reducing the amount of required collateral, replacing present collateral to another one, forfeiture of collateral (release of collateral)
    - determination of new contractual terms, termination a part of original contractual terms.
b) a contract modification that qualifies as a concession may result in a supplementary agreement or a new contract between the parties or between a related party of the debtor and the original creditor that is a loan granted in order to repay the current outstanding balance of the loan (principal and interest) determined based on original contractual terms that was terminated or not yet terminated and also in order to avoid the increase in risk classification and to mitigate the loss in which cases the supplementary agreement or the new contracts that result in a new loan in the Bank's records are considered as restructured loans.

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

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

Change in monitoring/recovery of restructured loans:

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

An analysis of forborne loan portfolio by loan types

31 December 2021	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	4,611	152	5,189	2,358
Corporate loans	384	19	365	1
Total	**4,995**	**171**	**4,824**	**2,359**

31 December 2020	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	5,273	125	5,148	2,730
Corporate loans	345	17	328	1
Total	**5,618**	**142**	**5,476**	**2,731**

30.4.5. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by the Bank:

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

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

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

Other
In addition to the above the Banks also accept assigned claims, lien on claims.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals:

	31 December 2021	31 December 2020
Mortgage	1,254,927	1,269,803
Bail	12	12
Guarantee	2,573	2,881
Total	**1,257,512**	**1,272,696**

The collaterals are related to the loans fully. The mortgage collaterals that are related to own lending are recognised at collateral value (discounted market value) by the Bank, the other collaterals are recognised at its own value (for example in case of assignment at the amount of the assignment). The Other collaterals category includes the value of the insurances.

The table below shows the maximum credit risk exposure:

	31 December 2021	31 December 2020
Other demand deposit	226	627
Financial assets at fair value through other comprehensive income	26,232	34,929
Debt securities at amortised cost	250,536	229,366
Individual loans	32,161	49,446
Corporate loans	515	494
Dues from banks	342,719	294,640
Advances	387	845
Off-balance sheet commitments	24,391	22,120
Total gross credit risk exposure	**677,167**	**632,467**

30.5. Market risk

Takarék Mortgage Bank Plc. maintains the maturity-, interest rate- and foreign exchange rate risk at low level derived from the asset, liability and off balance sheet commitments.

30.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assess interest rate risk on a continuous basis with the help of Gap-analysis, sensitivity analysis. Interest rate risk is managed through mortgage bond issues and interest rate swaps, taking into account the breakdown of the loan portfolio by interest rate.

All figures in tables are in HUF million except otherwise noted

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

	Sensitivity of interest income 2021	Sensitivity of interest income 2020	Sensitivity of interest income 31.12.2020 +10 bp	Sensitivity of interest income 31.12.2020 +25 bp
HUF	(12)	(1)	(118)	(295)

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.
Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2021 net interest income would decrease by HUF 12 million in case of HUF. The effect of other foreign currency is not significant.

30.6.1. Exchange rate risk management

The business policy of the Mortgage Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

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

FX	Effect on earning before income tax (31 December 2021)	Effect on capital (31 December 2021)	Effect on earning before income tax (31 December 2020)	Effect on capital (31 December 2020)
EUR	30	30	80	80
USD	(80)	(80)	-	-
CHF	270	270	120	120
GBP	(160)	(160)	-	-

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could increase with HUF 30 thousand, in case of CHF items it could increase with HUF 270 thousand. In case of USD items the estimated net earnings before tax and the share capital could decrease with HUF 80 thousand, and in case of GBP items it could decrease with HUF 160 thousand. The total effect is not significant.

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

31 December 2021	HUF	EUR	CHF	Other	Total
Total assets	658,337	6,264	414	-	665,015
Total liabilities	(589,506)	(6,166)	(397)	(10)	(596,079)
Equity	(68,936)	-	-	-	(68,936)
Off-balance sheet items	(15,015)	(9,376)	-	-	(24,391)
Position	**(15,120)**	**(9,278)**	**17**	**(10)**	**(24,391)**

31 December 2020	HUF	EUR	CHF	Other	Total
Total assets	605,142	6,614	385	-	612,141
Total liabilities	(538,544)	(6,539)	(374)	-	(545,457)
Equity	(66,684)	-	-	-	(66,684)
Off-balance sheet items	(12,961)	(9,159)	-	-	(22,120)
Position	**(13,047)**	**(9,084)**	**11**	**-**	**(22,120)**

30.7. Liquidity and maturity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by coordinating the maturity of receivables and payables. At the same time, the Bank applies maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times.
The Banks regularly review prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares its liquidity management financing position, based on different assumption scenarios that take into account the impact of stress situations. It maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits with MTB.

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2021	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	-	-	-	-	-	-
Loans received	-	260	25,495	237,376	-	-	263,131
Issued debt securities	-	-	8,066	184,128	127,654	1,866	321,714
from this: Mortgage bonds	-	-	*8,066*	*184,128*	127,654	1,866	321,714
Other financial liabilities	585	55	28	21	-	-	689
Total banking liabilities	**585**	**315**	**33,589**	**421,525**	**127,654**	**1,866**	**585,534**

31 December 2020	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	1,259	-	-	-	-	1,259
Loans received	-	230	-	212,759			212,989
Issued debt securities	-	-	-	181,753	63,472	77,326	322,551
from this: Mortgage bonds	-	-	-	*181,753*	*63,472*	*77,326*	322,551
Other financial liabilities	895	548	38	38	-	-	1,519
Total banking liabilities	**895**	**2,037**	**38**	**394,550**	**63,472**	**77,326**	**538,318**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2021

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	229	-	229
Financial assets held for trading	2,359	-	2,359
Financial assets at fair value through other comprehensive income	26,232	10	26,242
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	20,279	614,685	634,964
Derivatives – Hedge accounting	-	-	-
Tangible assets	-	95	95
Intangible assets	-	203	203
Tax assets	512	-	512
Other assets	411	-	411
Total assets	**50,022**	**614,993**	**665,015**
Liabilities			
Financial liabilities held for trading	2,309	-	2,309
Financial liabilities designated at fair value through profit or loss	6,121	-	6,121
Financial liabilities measured at amortised cost	34,489	551,045	585,534
Derivatives – Hedge accounting	1,112	-	1,112
Provisions	28	-	28
Tax liabilities	147	-	147
Other liabilities	828	-	828
Total liabilities	**45,034**	**551,045**	**596,079**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2020

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	1,499	-	1,499
Financial assets held for trading	103	-	103
Financial assets at fair value through other comprehensive income	8,011	26,878	34,889
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	36,245	537,635	573,880
Derivatives – Hedge accounting	926	-	926
Tangible assets	-	125	125
Intangible assets	-	208	208
Tax assets	-	348	348
Other assets	144	19	163
Total assets	**46,928**	**565,213**	**612,141**
Liabilities			
Financial liabilities held for trading	88	-	88
Financial liabilities designated at fair value through profit or loss	-	6,484	6,484
Financial liabilities measured at amortised cost	2,970	535,348	538,318
Derivatives – Hedge accounting	284	-	284
Provisions	16	100	116
Tax liabilities	4	-	4
Other liabilities	163	-	163
Total liabilities	**3,525**	**541,932**	**545,457**

All figures in tables are in HUF million except otherwise noted

30.8. Management of operational

Operational risk is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Bank through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.
The Bank performed the oprisk self-assessment referring to the key activities and determined incidences that are unfrequent, but in case of occurrence inflict heavy losses, which effects are measured by scenario analysis.
In accordance with the supervisory expectations the Bank are compiled an inventory of the models used to assess model risks and a product inventory to identify the risks inherent in the products.

30.9. Treatment of risk concentration

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate.

31. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.
On the capital adequacy of the members of the integration the MTB Ltd publishes the audited financial statements in the disclosure document of the business year.

32. RELATED PARTY TRANSACTION

For the purpose of the financial statements, Hungarian Bank Holding Ltd. identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10%. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions.

The list of the related parties, - including the subsidiaries, associates and other shares of the Takarek Mortgage Bank Plc. - as at 31 December 2021 is the following. They are presented from the perspective of **the main parent company, Hungarian Bankholding Ltd.** and MTB Ltd.

Company	Classification	Core business
Hungarian Bankholding Ltd.	**Main Parent company**	Property management
MTB Magyar Takarékszövetkezeti Bank Zrt.	Parent company	Other monetary intermediation
Magyar Takarék Bankholding Zrt.	Parent company	Property management
Takarékbank Zrt.	Subsidiary	Other monetary intermediation
Takarék Lízing Zrt.	Subsidiary	Other lending
Takarék Ingatlan Zrt.	Subsidiary	Estate agent service
Takarék Invest Befektetési és Ingatlankezelő Kft.	Subsidiary	Property management
TIFOR Takarék Ingatlanforgalmazó Zrt.	Subsidiary	Property management
TIHASZ Takarék Ingatlanhasznosító Zrt.	Subsidiary	Renting and operating of real estate
Takarék Faktorház Zrt.	Subsidiary	Other lending
Takarék Központi Követelés Kezelő Zrt.	Subsidiary	Other financial intermediation
Takarékszövetkezeti Informatikai Kft.	Subsidiary	IT system operation
EQUILOR II. Magántőkealap	Associate	Investment fund
DBH Investment Zrt.	Subsidiary	Other financial intermediation
Takarék Zártkörű Befektetési Alap	Subsidiary	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Subsidiary	Investment fund
OPUS TM1 Ingatlan Befektetési Alap	Subsidiary	Investment fund
Takarék Kockázati Tőkealap	Associate	Investment fund
MPT Security Zrt.	Associate	Security service
Takarékinfo Központi Adatfeldolgozó Zrt.	Associate	Data services, web hosting services
Budapest Bank Zrt.	Subsidiary	Other monetary intermediation
MKB Bank Nyrt.	Subsidiary	Other monetary intermediation
MKB Üzemeltetési Kft.	Subsidiary	Renting and operating of real estate
Euro – Immat Üzemeltetési Kft.	Subsidiary	Renting of intangible assets
MKB Digital Szolgáltató Zrt.	Subsidiary	IT system operation
MKB-Euroleasing Autólízing Zrt.	Subsidiary	Financial leasing
MKB Bank MRP Szervezet	Subsidiary	Other financial services
Retail Prod Zrt.	Subsidiary	Other lending
MKB-Pannónia Alapkezelő Zrt.	Associate	Fund management
Budapest Eszközfinanszírozó Zrt.	Subsidiary	Renting of tangible assets
Budapest Lizing Zrt.	Subsidiary	Financial leasing
Budapest Alapkezelő Zrt.	Subsidiary	Fund management

As at 31 December 2021 and 2020, the Bank did not have any loans to members of the Bank's management bodies.

	31 December 2021		31 December 2020	
	Head-count	Amount of emoluments	Head-count	Amount of emoluments
Members of Board of Directors	7	17	6	17
Members of Supervisory Board	6	15	6	16
Total payments	**13**	**32**	**12**	**33**

Details of transaction in 2021 and 2020 between the Bank and other related parties are disclosed on the next table.

31 December 2021	Parent	Subsidiaries	Associates	Key management
Due from banks	9,710	1,243	-	-
Loans and advances to customers at amortised cost	-	313,704	-	-
Other assets	145	220	-	-
Total assets	**9,855**	315,167	**-**	**-**
Due to banks	25,483	-	-	-
Other liabilities	1,369	58,272	-	-
Total liabilities	**26,852**	58,272	**-**	**-**
Interest income	155	7,206	-	-
Interest expense	(125)	(1,760)	-	-
Net interest income	**30**	**5,446**	**-**	**-**
Fee and commission income	-	458	-	-
Fee and commission expense	-	(444)	-	-
Net fee and commission income	**-**	**14**	**-**	**-**
Other operating income	1,106	305	-	-
Other operating expense	(1,715)	(4,030)	-	-
Operating income	**(609)**	(3,725)	-	**-**
Operating expense	(532)	(9)	(448)	(32)
Profit/loss on transactions with related parties	**(1,111)**	**1,726**	**(448)**	**(32)**

All figures in tables are in HUF million except otherwise noted

31 December 2020*	Parent	Subsidiaries	Associates and joint ventures	Key management
Due from banks	7,353	-	-	-
Loans and advances to customers at amortised cost	-	20,980	-	-
Other assets	-	1,147	-	-
Total assets	**7,353**	**22,127**	**-**	**-**
Due to banks	371	65	-	-
Deposits from customers	-	-	-	-
Other liabilities	11,384	57,131	-	-
Total liabilities	**11,755**	**57,196**	**-**	**-**
Interest income	26	2,727	-	-
Interest expense	(68)	(182)	-	-
Net interest income	**(42)**	**2,545**	**-**	**-**
Fee and commission income	-	60	-	-
Fee and commission expense	-	(22)	-	-
Net fee and commission income	**-**	**38**	**-**	**-**
Net operating income	180	458	-	-
Operating income	**180**	**458**	**-**	**-**
Operating expense	(30)	(2)	(178)	(33)
Profit/loss on transactions with related parties	**108**	**3,039**	**(178)**	**(33)**

*For data as of December 31, 2020, the data were presented from the point of view of MTB as parent company, in accordance with the audited annual financial statements of 2020.

All figures in tables are in HUF million except otherwise noted

Outstanding balances with government related entries:

	31 December 2021		31 December 2020	
	Outstand-ing bal-ances with govern-ment re-lated en-tites *	Significant Transactions with govern-ment related entities**	Outstand-ing bal-ances with gov-ernment related entites*	Significant Transactions with govern-ment related entities**
Securities	254,131	-	259,769	-
Total assets	**254,131**	**-**	**259,769**	**-**
Due to banks	237,636	-	212,989	29,333
Total liabilities	**237,636**	**-**	**212,989**	**29,333**
Interest income	3,708	-	1,950	-
Interest expense	(1,847)	-	(840)	-
Total payments	**1,861**	**0**	**1,110**	**0**

** government related entries mean Hungarian National Bank – LTRO see note 24, Államadóság Kezelő Központ Zrt. ("ÁKK")- bought securities see note 16,17*
*** The significant transaction is according to IAS.24.26*

All figures in tables are in HUF million except otherwise noted

Related parties financial data preliminary, unaudited data

Related party	31 December 2021				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Hungarian Bankholding Ltd.	0%	753,672	10,052	743,620	(1,739)
MTB Magyar Takarékszövetkezeti Bank Zrt.	0%	1,507,980	1,469,024	38,956	7,285
Magyar Takarék Bankholding Zrt.	0%	102,194	21	102,173	(184,127)
Takarékbank Zrt.	0%	3,228,322	3,127,033	101,289	(11,107)
Takarék Lízing Zrt.	0%	61,473	60,161	1,312	405
Takarék Ingatlan Zrt.	0%	766	162	605	194
Takarék Invest Befektetési és Ingatlankezelő Kft.	0%	2,765	11	2 755	(163)
TIFOR Takarék Ingatlanforgalmazó Zrt.	0%	6,352	232	6 119	193
TIHASZ Takarék Ingatlanhasznosító Zrt.	0%	26,744	466	26 278	426
Takarék Faktorház Zrt.	0%	11,342	10,624	718	77
Takarék Központi Követelés Kezelő Zrt.	0%	3,849	443	3,406	1,366
Takarékszövetkezeti Informatikai Kft.	0%	1,710	7	1,703	(34)
EQUILOR II. Magántőkealap	0%	6,993	3	6,990	(153)
DBH Investment Zrt.	0%	514	257	257	38
Takarék Zártkörű Befektetési Alap	0%	11,388	8	11,381	(1,038)
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	0%	12,476	1	12,475	100
OPUS TM1 Ingatlan Befektetési Alap	0%	2,170	14	2,157	49
Takarék Kockázati Tőkealap	0%	9,687	209	9,477	30
MPT Security Zrt.	0%	5,555	1,983	3,572	330

All figures in tables are in HUF million except otherwise noted

Related parties financial data preliminary continuing, unaudited data

Related party	31 December 2021				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Takarékinfo Központi Adatfeldolgozó Zrt.	0%	24,272	25,846	1,574	(2,759)
Budapest Bank Zrt.	0%	2,519,276	2,345,882	173,394	8,058
MKB Bank Nyrt.	0%	3,319,223	3,080,310	238,913	35,940
MKB Üzemeltetési Kft.	0%	36,101	1,625	34,476	451
Euro – Immat Üzemeltetési Kft.	0%	5,386	696	4,690	(10)
MKB Digital Szolgáltató Zrt.	0%	1,407	657	750	95
MKB-Euroleasing Autólízing Zrt.	0%	199,114	191,067	8,048	2,288
MKB Bank MRP Szervezet	0%	3,455	15	3,440	297
Retail Prod Zrt.	0%	824	25	798	72
MKB-Pannónia Alapkezelő Zrt.	0%	-	-	-	-
Budapest Eszközfinanszírozó Zrt.	0%	2,665	1,421	1,244	(260)
Budapest Lizing Zrt.	0%	126,421	119,016	7,405	1,000
Budapest Alapkezelő Zrt.	0%	3,235	206	3,029	2,374

All figures in tables are in HUF million except otherwise noted

33. NET GAINS

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

1 January 2021 – 31 December 2021	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	401	204	411	13,111	574	3	-	14,704
Interest expenses	(397)	(261)	0	(9,457)	(333)	(8)	-	(10,456)
NET INTEREST INCOME	**4**	**(57)**	**411**	**3,654**	**241**	**(5)**	**-**	**4,248**
Fee and commission income	-	-	-	-	-	589	-	589
Fee and commission expenses	-	-	-	-	-	(620)	-	(620)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**(31)**	**-**	**(31)**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	269	(83)	-	-	-	186
Gains on financial assets and liabilities held for trading, net	1	-	-	-	-	-	-	1
Gains on financial assets and liabilities designated at fair value through profit or loss	-	238	-	-	-	-	-	238
Gains on financial assets and liabilities mandatorily at fair value through profit or loss		438	-					438
(Losses) from hedge accounting, net	-	-	-	-	(76)	-	-	(76)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	(4)	(4)
Other operating income	-	-	-	-	-	-	439	439
Other operating expense	-	-	-	-	-	-	-	-
OPERATING INCOME	**5**	**619**	**680**	**3,571**	**165**	**(36)**	**435**	**5,439**

All figures in tables are in HUF million except otherwise noted

1 January 2020 – 31 December 2020 (Revised presented)	Financial assets and liabilities held for sale	Change in the fair value attributable to changes in the credit risk of loans mandatorily measured	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	224	207	-	504	9,826	685	3	-	11, 449
Interest expenses	(222)	-	(271)	-	(7,413)	(318)	(13)	-	(8,237)
NET INTEREST INCOME	**2**	**207**	**(271)**	**504**	**2,413**	**367**	**(10)**	**-**	**3,212**
Fee and commission income	-	-	-	-	-	-	689	-	689
Fee and commission expenses	-	(69)	-	-	-	-	(521)	-	(590)
NET FEE AND COMMISSION INCOME	**-**	**(69)**	**-**	**-**	**-**	**-**	**168**	**-**	**99**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	611	(119)	-	-	-	492
Gains on financial assets and liabilities held for trading, net	672	-	-	-	-	-	-	-	672
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	35	-	-	-	-	-	-	35
Gains on financial assets and liabilities designated at fair value through profit or loss	-	-	290	-	-	-	-	-	290
(Losses) from hedge accounting, net	-	-	-	-	-	(878)	-	-	(878)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	-	157	157
Other operating income	-	-	-	-	-	-	-	530	530
Other operating expense	-	-	-	-	-	-	-	(16)	(16)
OPERATING INCOME	**674**	**173**	**19**	**1,115**	**2,294**	**(511)**	**158**	**671**	**4,594**

All figures in tables are in HUF million except otherwise noted

1 January 2020 – 31 December 2020	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	224	-	504	10,033	685	3	-	11, 449
Interest expenses	(222)	(271)	-	(7,413)	(318)	(13)	-	(8,237)
NET INTEREST INCOME	**2**	**(271)**	**504**	**2,620**	**367**	**(10)**	**-**	**3,212**
Fee and commission income	-	-	-	-	-	688	-	688
Fee and commission expenses	-	-	-	-	-	(521)	-	(521)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**167**	**-**	**167**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	611	(119)	-	-	-	492
Gains on financial assets and liabilities held for trading, net	672	-	-	-	-	-	-	672
Gains on financial assets and liabilities designated at fair value through profit or loss	-	290	-	-	-	-	-	290
(Losses) from hedge accounting, net	-	-	-	-	(878)	-	-	(878)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	157	157
Other operating income	-	-	-	-	-	-	530	530
Other operating expense	-	-	-	-	-	-	(16)	(16)
OPERATING INCOME	**674**	**19**	**1,115**	**2,501**	**(511)**	**157**	**671**	**4,626**

All figures in tables are in HUF million except otherwise noted

33.1. Equity correlation table

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the Notes for the reporting date by the Bank.
Equity correlation table shall contain the opening and closing balances of the shareholder’s equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2021:

31 December 2021	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder’s equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**27,623**	**-**	**-**	**(207)**	**2,745**	**68,936**
Accumulated other comprehensive income	-	-	-	-	233	(233)	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	1,439	(1,439)	-	-	-	-	-
Components of Shareholder’s equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,439**	**26,210**	**(233)**	**207**	**(207)**	**2,745**	**68,936**

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2020:

31 December 2020	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**25,743**	**-**	**-**	**(207)**	**2,373**	**66,684**
Accumulated other comprehensive income	-	-	-	-	(260)	260	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	1,164	(1,164)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,164**	**24,112**	**260**	**207**	**(207)**	**2,373**	**66,684**

All figures in tables are in HUF million except otherwise noted

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

	31 December 2021	31 December 2020
Share capital in accordance with IFRS adopted by EU	10,849	10,849
Share capital registered on the Registry Court	10,849	10,849
Difference	**-**	**-**

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

	31 December 2021	31 December 2020
Retained earnings and other reserves	27,623	25,743
Unused portion of reserve for developments	-	-
Other capital reserve	-	-
Accumulated other comprehensive income	(233)	260
Repurchased treasury shares (Tied-up reserve)	207	(207)
General reserve	(1,439)	(1,164)
Profit for the year	2,745	2,373
Untied retained earnings available for the payment of di-vidends	**28,903**	**27,005**

All figures in tables are in HUF million except otherwise noted

34. POST BALANCE SHEET EVENTS

Auction
The Bank organized the auction of the third tranche of TJ25NV01 Takarek mortgage (covered) bond (maturity: 26.11.2025, interest rate: variable/current annual interest: 3.67%) on 24 January 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 10,060 million, the total nominal value issued was HUF 7,200 million, while the average selling price (net) was 100.4153%.

The Bank organized the auction of the third tranche of TJ26NF02 Takarek mortgage (covered) bond (maturity: 22.12.2026, interest rate: fix: 1.75%) on 8 February 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 7,970 million, the total nominal value issued was HUF 12,520 million, while the average selling price (net) was 84.5527%.

At the end of February the Bank arranged a double green mortgage bond issue transaction. It offered to the investors the second tap of TZJ27NF1 originally 6 year tenor, with 5 year tenor and 3.5 coupon total offered (nominal) value of HUF 5 billion green covered bond and the first tap of TZJ32NF1 10 year tenor, with 5.75% coupon and total offered (nominal) value of HUF 3 billion. As a result of the auctions, the Bank issued 7.45bn and 1.97bn forint nominal amounts, respectively.

European Energy efficient Mortgage Label
The Bank as the first Hungarian Mortgage Bank joined the family of the European Energy efficient Mortgage Label (EEML) on 21st of February 2022. EEML is a clear and transparent quality label for consumers, lenders and investors, aimed at identifying energy efficient mortgages (EEM) in lending institutions' portfolios, which are intended to finance the purchase/construction and/or renovation of both residential (single family & multi-family) and commercial buildings, with a focus on building energy performance. The EEML is intended as a global benchmark for EEM from the perspective of lending institutions and institutional investors. The membership is extremely increase the reputation of the Bank. (The Hungarian Central Bank is also among the members of the EEML Advisory Council.

Issued Bond by Hungarian Bankholding Ltd.
Based on paragraph 20/H (1) – effective from October 29, 2021 – of Act 135 of 2013 on the modification of the integration of cooperative credit institutions and select economic legislation the Integration Organization – in order to meet the goals of the integration of credit institutions – is obliged to invest its assets until January 31, 2022 into bonds, to be issued by the financial holding parent company, i.e. the Hungarian Bankholding Ltd. (which has supervisory control influence over the Integration Organization) for 20-year maturity, paying a coupon that matches the average YTM of applicable government bonds as published on the website of AKK Ltd. (State Debt Management Centre) provided that Hungarian Bankholding Ltd. is obliged to issue these bonds at a value, which is set in the inquiry of the Integration Organization according to legal provisions.
In its resolution made on January 20, 2022 the general meeting of Hungarian Bankholding Ltd. ordered to the bond issuance. Based on the resolution of the general meeting the MBH 2042/A bond series (ISIN: HU0000361282) was issued and subscribed by the Integration Organization within the statutory deadline. Hence, as of January 31, 2022 the Integration Organization's securities account was credited by 3,794 pieces of MBH 2042/A bonds bearing a face value of HUF 50 million each, while the account of Hungarian Bankholding Ltd., the issuer, was credited by HUF 188,220.34 million as the value of the bonds sold at the 99.22% subscription price.

Russian / Ukrainian conflict

After the closing of Q4 2021, the Russia conflict of -Ukraine meant an important change in the economic environment in late February 2022. Geopolitical conflicts contribute to the uncertainty of growth prospects. The favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures, and these trends have been exacerbated by the war. The conflict, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% in February after 5.1% in January. Domestic price pressures rose to 8.3% in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.
In response to developments since the end of February, Hungarian National Bank (MNB) raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the O/N (overnight) deposit remained unchanged. MNB announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (MNB raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). High inflation could dampen strong economic growth this year for both the domestic and European economies.

The Ukrainian-Russian war has not caused any significant direct economic loss for Takarék Mortgage Bank, nor for the other members of Hungarian Bankholding. Both the Bank's capital situation and its liquidity position are stable, and it has sufficient reserves. There is at this time no known material direct banking risk in either the retail or the corporate customer portfolios. Interbank money market limits towards the countries concerned were immediately closed (there was no exposure). The hedge monitoring of customer positions has been confirmed (there is no customer positions below the hedging limit).
None of the members of the Bankholding had any material open FX positions and recent volatile movements in FX rates did not result in any significant direct losses.

The Strategic Analysis Centre of Hungarian Bankholding continuously monitors and analyses the relevant changes in the money and capital markets. The price volatility of the Hungarian forint has increased in line with regional currencies. Despite this, the Bank has not observed any significant retail demand for foreign currency exchange or foreign exchange compared to normal business. Any changes in asset prices (including financial assets and properties held as collateral) are also a focus of the monitoring.
All members of Bankholding comply with EU and US sanctions bans lists, including the requirements for exclusion of a number of commercial banks in Russia and Belarus from the SWIFT system. This increases the likelihood for more difficult trade and money transfer relationship for Hungarian companies involved in Russian or Belarus relations.

In connection with the Ukrainian-Russian war, the Bank continues to monitor for clients who may be directly or indirectly affected, and their follow-up is carried out by members of the Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based upon the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

<u>In case of Takarek Mortgage Bank:</u> The Bank does not have a significant corporate portfolio, in case of retail portfolio, the perceived increases in risk observed during routine monitoring processes should be individually identified and managed at the time of occurrence.

PROPOSAL
TO AGENDA ITEM NO. 1.2.

●

THE REPORT OF THE BOARD OF SUPERVISORS ON THE COMPANY'S 2021 SEPARATE FINANCIAL STATEMENTS AND SEPARATE BUSINESS REPORT AS DEFINED IN THE IFRS

The Board of Supervisors examined the business report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("the Company") for the financial year 2021, as well as its Separate Financial Statement for the financial year 2021 conducted on the basis of the International Financial Reporting Standards adopted by the European Union, including the separate comprehensive income statement, the separate comprehensive statement of other income, the separate statement of financial position, the separate statement of cash flow, the separate statement of changes in equity, the notes to the separate financial statements.

Based on the report of the Company's auditor, the Board of Supervisors concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

I.

The Board of Supervisors recommends that the General Meeting approve the Company's separate annual report for 31 December 2021 concluded in accordance with the International Accounting Standards ("IFRS")

with a balance sheet total of HUF 665,015 million

The Board of Supervisors recommends to the General Meeting that the Company shall place the profit of HUF **2,745** million for the year 2021 in profit reserves in the annual profit distribution and create a general reserve of HUF 275 million pursuant to legal rule.

The Board of Supervisors also initiates the acceptance of the business report for 2021.

II.

The Supervisory Board recommends that the General Meeting accept the consolidated financial statements of the Company for 2021 prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union
with a balance sheet total of HUF **665,015** million
and a profit after tax of HUF **2,745** million.

PROPOSAL
TO AGENDA ITEM NO. 1.2.

●

THE REPORT OF THE BOARD OF SUPERVISORS ON THE COMPANY'S 2021 SEPARATE FINANCIAL STATEMENTS AND SEPARATE BUSINESS REPORT AS DEFINED IN THE IFRS

The Board of Supervisors examined the business report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (“the Company”) for the financial year 2021, as well as its Separate Financial Statement for the financial year 2021 conducted on the basis of the International Financial Reporting Standards adopted by the European Union, including the separate comprehensive income statement, the separate comprehensive statement of other income, the separate statement of financial position, the separate statement of cash flow, the separate statement of changes in equity, the notes to the separate financial statements.

Based on the report of the Company's auditor, the Board of Supervisors concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

I.

The Board of Supervisors recommends that the General Meeting approve the Company’s separate annual report for 31 December 2021 concluded in accordance with the International Accounting Standards (“IFRS”)

with a balance sheet total of HUF 665,015 million

The Board of Supervisors recommends to the General Meeting that the Company shall place the profit of HUF **2,745** million for the year 2021 in profit reserves in the annual profit distribution and create a general reserve of HUF 275 million pursuant to legal rule.

The Board of Supervisors also initiates the acceptance of the business report for 2021.

II.

The Supervisory Board recommends that the General Meeting accept the consolidated financial statements of the Company for 2021 prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the European Union
with a balance sheet total of HUF **665,015** million
and a profit after tax of HUF **2,745** million.

PROPOSAL
TO AGENDA ITEM NO. 1.3.

●

THE REPORT OF THE AUDIT COMMITTEE ON THE COMPANY'S 2021 SEPARATE FINANCIAL STATEMENTS AND SEPARATE BUSINESS REPORT AS DEFINED IN THE IFRS

The Audit Committee examined the business report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("the Company") for the financial year 2021, as well as its Separate Financial Statement for the financial year 2021 conducted on the basis of the International Financial Reporting Standards adopted by the European Union, including the separate comprehensive income statement, the separate comprehensive statement of other income, the separate statement of financial position, the separate statement of cash flow, the separate statement of changes in equity, the notes to the separate financial statements.

Based on the report of the Company's auditor, the Audit Committee concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

The Audit Committee supports the following recommendations of the Board of Supervisors:
I.
The Board of Supervisors recommends to the General Meeting to approve the Company's separate annual report for 31 December 2021 concluded in accordance with the International Accounting Standard ("IFRS") with the

total balance sheet amount of HUF 665,015 million

.

The Board of Supervisors recommends to the General Meeting that the Company shall place the profit of HUF 2,745 million for the year 2021 in profit reserves during the annual profit distribution and create a general reserve of HUF 275 million pursuant to legal rule.

The Board of Supervisors also initiates the acceptance of the business report for 2021.

The Audit Committee recommends that the Supervisory Board's report as detailed above be submitted to the General Meeting.

PROPOSAL
TO AGENDA ITEM NO. 2.

●

DECISION FOR SENIOR OFFICERS CONCERNING THE GRANTING OF INDEMNIFICATION ESTABLISHING THE COMPLIANCE OF THEIR MANAGEMENT ACTIVITIES IN THE BUSINESS YEAR OF 2021

Proposal:

Pursuant to Paragraph (1) of Section 3:117 of Act V of 2013 on the Civil Code (the "Civil Code"), the request of the senior officer may be granted by the General Meeting by issuing, simultaneously with the acceptance of the report, an indemnification establishing the compliance of management activities in the previous business year.

The reasons for granting the exemption are summarized below:

In the course of the previous year, the Board of Directors monitored, discussed the issues within its competence, held regular meetings to make the decisions necessary for such issues, and made out-of-meeting decisions. The report on the activities and achievements of Takarék Jelzálogbank Nyrt. in the year 2020 had been prepared for the ordinary General Meeting planned for 2021, which was eventually not held due to the state of emergency.

In observance of the provisions of Chapter V of Act CXX of 2001 on the Capital Market and of relevant legislation, the Board of Directors kept the shareholders informed of the business activities of Takarék Jelzálogbank Nyrt. at all times.

The Board of Directors, with regard to and in accordance with the provisions of the law on credit institutions and financial undertakings, and the law on accounting, have created and prepared for submission to the General Meeting the annual report of Takarék Jelzálogbank Nyrt.

The separate annual profit of Takarék Jelzálogbank Nyrt. was HUF 2,745 million in the year 2021 according to IFRS, while the Bank's total separate comprehensive income was HUF 2,252 million forints.

Based on International Financial Reporting Standards ("IFRS"), the balance sheet total of Takarék Jelzálogbank Nyrt. was HUF 665,015 million separately at 31 December 2021.

As of Q2 2018, the Jelzálogbank will perform only classic mortgage banking functions, i.e. issuing mortgage bonds, and provide refinancing to the mortgage portfolios of the Takarék Group and external partners with the funds involved. The Takarék Jelzálogbank has a special banking role within the Takarék Group: it can involve the appropriate financing sources within the Group in the form of mortgage debenture and mortgage bonds from both domestic and foreign capital markets. In case of the latter, the involvement of foreign exchange funds can be also provided, if necessary.
Takarék Jelzálogbank focuses on cooperation with external partners regarding its strategy, thus attempts to provide a lucrative market alternative for credit institutions interested in refinancing that do not have their own mortgage credit institution.

The volume of refinancing loans increased by 15.5%, i.e. by HUF 44.6 billion to HUF 332.0 billion by 31 December 2021 compared to the previous year.

In 2021, the activity of the entire domestic mortgage bond market suffered a temporary setback after the Central Bank of Hungary ("MNB") closed down its mortgage bond purchase program (in mid-November 2020). At the same time, the central bank indicated its intention to launch a future green mortgage bond purchase program. MNB's launch of the HUF 200 billion Green Mortgage Bond Purchase Program on 2 August 2021 resulted in a major factor on the market that impacted the business and financial operations of Takarék Jelzálogbank in 2021.

In 2021, Takarék Jelzálogbank Nyrt. issued mortgage bonds for a total nominal value of HUF 24.5 billion in twelve public auctions.

In October 2021, Takarék Jelzálogbank – having fulfilled all conditions of MNB's green mortgage bond program - issued its first green mortgage bond (series TZJ27NF1) with a maturity of 2027 of which it sold a value of HUF 5 billion. Owing to MNB's purchases, the average yield of the bond with a 6-year original maturity and a coupon rate of 3.5% increased to 3.58%, which is a 15 basis point premium compared to government securities of a similar maturity.

In addition to MNB's green mortgage bond purchase program, Takarék Jelzálogbank also participates in MNB's mortgage bond renewal program. MNB, based on the resolution of its Monetary Council on 6 July 2021 and in order to preserve market stability and reduce renewal risks, will purchase mortgage bonds to renew the mortgage bonds in its possession that will become mature within less than 12 months (renewable mortgage bonds). As part of this, in November 2021, Takarék Jelzálogbank announced the second half of the TJ26NF02 series which it sold in a total value of HUF 7 billion.

The Board of Directors has performed its duties preserving the value of shares and emphasizing the prime importance of the interests of Takarék Jelzálogbank Nyrt.

The internal audit, compliance and anti-money laundering, safeguarding officer's report or the operational risk report at the end of 2021 did not reveal any major deficiency that would prevent the issuing of the indemnification.

In observance of the aforementioned it is justified that the Board of Directors – acting on behalf of the General Meeting to be held on 28 April 2022 – evaluates the activities performed by senior officers in the business year of 2021, and, based on said evaluation, issues an indemnification establishing the compliance of the senior officers' management activities in the business year of 2021.

If the indemnification is granted, Takarék Jelzálogbank Nyrt. may only make a claim for compensation against members of the Board of Directors for the violation of managerial obligations if the facts or data on which said indemnification is based prove to be incorrect or incomplete.

The facts and data on which the issuance of the indemnification may be based are provided in the following documents:

- semi-annual reports;
- annual reports;
- interim management statements;
- extraordinary announcements;
- statements concerning 2021, relevant audit reports, Board of Supervisors' report;
- Responsible Corporate Governance Report.

The Board of Supervisors concurs with the proposal of the Board of Directors.

Proposed resolution:

The General Meeting has evaluated the activities of the senior officers in the business year of 2021, and, based on said evaluation, has issued an indemnification establishing the compliance of their management activities in the business year of 2021.

PROPOSAL
TO AGENDA ITEM NO. 3.

●

ELECTION AND DETERMINATION OF
THE REMUNERATION OF THE
COMPANY'S AUDITOR

Proposal:

Pursuant to the provisions of the Credit Institutions Act and the Civil Code, electing an auditor at credit institutions is mandatory. A proposal regarding the auditor and their remuneration shall be submitted by the Audit Committee to the Supervisory Board and by the Supervisory Board to the supreme body, the General Meeting. The auditor shall be elected and their remuneration shall be determined by the General Meeting. Determining the terms and conditions of the agreement to be concluded with the permanent auditor shall fall within the exclusive competence of the General Meeting. Pursuant to the Statutes, the Board of Directors shall form its own position and submit a proposal regarding the issues falling within the exclusive competence of the General Meeting.

In the proposal prepared for the Board of Directors of Magyar Bankholding Zrt. (hereinafter as "MBH") in January 2021, the Finance, accounting and taxation function explained that, due to rotation requirements, **a new auditor** shall be elected for **MKB Group** and **MTB Group**, two major groups within the MBH Group, to replace Deloitte Könyvvizsgáló Kft. auditing the annual report. Since the auditor will be replaced for two major members of the Group, a new auditor will need to be elected for **the entire MBH Group**. The aforementioned proposal has been approved by MBH's Board of Directors and a call for proposals has been published for the election of the auditor.

As result of the tender procedure, MBH's Board of Directors, by its **board resolution no. 237/2021. (X.01.)**, supported **PricewaterhouseCoopers Könyvvizsgáló Kft.** (hereinafter as "PwC") to be elected as **Group Auditor from 01.01.2022.** and invited the members of the MBH Group, including Takarék Jelzálogbank Nyrt., too, to contact the new auditor and make the necessary arrangements for the change of auditor.

Based on the negotiations conducted during the preparations and in line with the aforementioned resolution of MBH's Board of Directors, we recommend that **PwC be engaged to audit the business year 2022.**
Based on preliminary negotiations, and the offer submitted by PwC, we recommend, furthermore, that

- **the audit fee** be maximized at **HUF 22.25 million + VAT for the business year 2022**, and
- **Balázs Mészáros, and, as his deputy, Árpád Balázs,** registered auditors, be approved as the responsible persons conducting the audit in person.

Pursuant to applicable provisions of the Civil Code, the General Meeting, at the same time as electing a company auditor, must also determine the terms and conditions of the agreement to be concluded with the auditor. The agreement is to be concluded with the elected auditor **within 90 days** of its election.

Pursuant to the provisions of the Credit Institutions Act and the Civil Code, electing an auditor at credit institutions is mandatory. A proposal regarding the auditor and their remuneration shall be submitted by the Audit Committee to the Supervisory Board and by the Supervisory Board to the supreme body, the General Meeting. The auditor shall be elected and their remuneration shall be determined by the General Meeting. Determining the terms and conditions of the agreement to be concluded with the permanent auditor shall fall within the exclusive competence of the General Meeting. Pursuant to the Statutes, the Board of Directors

shall form its own position and submit a proposal regarding the issues falling within the exclusive competence of the General Meeting.

The annual audit fee includes the following:

- **audit of the separate (non-consolidated) annual report for 2022** to be prepared in accordance with IFRS rules
- audit of the information and data to be disclosed in accordance with the requirements stipulated in the recommendations of the Central Bank of Hungary (Magyar Nemzeti Bank, "MNB"), and **issuing a separate audit report (Compliance Report)** to be submitted to the Supervision (MNB) that provides limited assurance of the aforementioned.
- audit of the **XBRL disclosure.**

PwC has appointed Balázs Mészáros, registered auditor (Chamber of Hungarian Auditors membership ID no.: 005614, registration no.: 005589), or, if he is unavailable, Árpád Balázs, registered auditor (Chamber of Hungarian Auditors membership ID no.: 007272, registration no.: 006931), as the natural persons conducting the audit of Takarék Jelzálogbank Nyrt. for the year 2022 in person and accepting the related responsibility. Based PwC's appointment, we recommend that **Balázs Mészáros, and, as his deputy, Árpád Balázs,** registered auditors, be approved as the responsible persons conducting the audit in person.

Terms and conditions of the agreement to be concluded with the auditor:

- Auditor:
  PricewaterhouseCoopers Könyvvizsgáló Kft.
- Remuneration of the auditor:
  The annual audit fee (including the preparation of the separate audit report (Compliance Report) to be submitted to the Central Bank of Hungary in accordance with the Credit Institutions Act, the audit of the information and data to be disclosed in accordance with Credit Institutions Act, CRR and MNB regulations, and issuing a limited assurance report on these, the audit of the XBRL disclosure): maximum HUF 22.25 million + VAT
- Subject of the agreement:
  - audit of the separate (non-consolidated) annual report of Takarék Jelzálogbank Nyrt. for the year 2022 to be prepared in accordance with international accounting standards (IFRS) and the preparation of the related independent auditors' reports
  - preparation of the separate audit report (Compliance Report) to be submitted to the Central Bank of Hungary
  - Issuing a management letter
  - Audit of the XBRL disclosure
- Term of the agreement:
  Fixed-term, audit of the year 2022

Other comments: (taking into consideration the independence of auditors)

- The Company has the right to engage the auditor for the performance of other tasks in separate agreements:
- Business consultancy, participation in due diligence;
- Project management, implementation and quality assurance of the tasks of strategic projects;

- Other consultancy in the areas of business, risks, banking security, accounting, reporting and taxation;
- Training.

Proposed resolution:

The General Meeting of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("Company") supports that the specific audit tasks of Takarék Jelzálogbank Nyrt. be performed by PricewaterhouseCoopers Könyvvizsgáló Kft. for the business year 2022 for a maximum fee of HUF 22.5 million + VAT.

The General Meeting of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság ("Company") supports that the auditor in charge be Balázs Mészáros, and, if he is prevented from performing his tasks, Árpád Balázs.

PROPOSAL
TO AGENDA ITEM NO. 4.

●

APPROVING THE RESPONSIBLE CORPORATE GOVERNANCE REPORT

Proposal:

Based on the Recommendations for Corporate Governance outlined by Budapesti Értéktőzsde (“BÉT”, Budapest Stock Exchange), stock exchange issuers are obliged to prepare a so called Responsible Corporate Governance Report, which shall be approved by the General Meeting in accordance with the provisions of Section 3:289 of Act V of 2013 of the Civil Code.

According to the BÉT’s guide, the recommendation is to be considered as a supplement to the Hungarian legal regulations (normally the Civil Code), primarily for public companies operating in Hungary listed on the BÉT. The recommendations proposes best practices. Adherence to and compliance with its provisions is recommended, but not mandatory for the listed companies.

Listed companies must declare their responsible corporate governance practices in two ways. In the first part, they shall report in an accurate, comprehensive and easy-to-understand way on their responsible corporate governance practices during the business year in question, including the corporate governance policy and a description of any special circumstances. In the second part, they shall report in accordance with the principle of “*comply and share*” on compliance with certain specific points of the recommendations and whether they apply the set out recommendations.

Stock exchange issuers shall make their statements and publish their reports on their corporate governance practices within 120 days of the relevant business year (by 29 April for companies with a business year corresponding to the calendar year).

This proposal recommends the adoption of the Responsible Corporate Governance Report of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (the “Company”) for the year 2021 with the attached content.

The Board of Supervisors agrees with the proposal of the Board of Directors.

Proposed resolution:

The General Meeting approves the Company’s Responsible Corporate Governance Report for the business year 2021 with the content of the written submission relevant for the agenda item.

A
Responsible Corporate Governance Report of Takarék Mortgage Bank Co. Plc.

for

2021

28 April 2022

1. Presentation of the operation of the Board of Directors, and the division of responsibilities and duties between the Board of Directors and the management

The Board of Directors is the legal representative and managing body of the Company, and it represents the Company against third parties, as well as before courts and other authorities, manages and controls the business activity and finances of the Company, and provides the conditions of successful operation.

The organisation and operation of the Board of Directors is governed by the Articles of Association and the Rules of Procedure of the Board of Directors. The Board of Directors has the authority to establish the Rules of Procedure of the Board of Directors. The Articles of Association is available on the official website of the Company (www.takarekjzb.hu).

The Board of Directors consists of at minimum five and at maximum nine members. In 2021, the Board of Directors had 6 members. The members of the Board of Directors are elected by the general assembly from among the shareholders or other persons. In accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings (Credit Institutions Act) and the Articles of Association, in 2021, out of the members of the Board of Directors, the CEO of the Company and the Deputy CEO(s) had continuous employment relationships with the Company (internal Board members).

The members of the Board of Directors shall be liable towards the Company for any damage caused thereto by breaching the provisions of the law, the Articles of Association, the resolutions of the general assembly or their obligations in accordance with the rules of civil law. The body shall have joint and several liability for damage caused in this manner. If the damage was caused by a resolution of the Board of Directors, any member of the Board of Directors who did not participate in the passing of the resolution or voted against it – and notified the Supervisory Board regarding this in writing within fifteen days after the passing of the resolution – shall be exempted from liability.

The Board of Directors shall make its decisions objectively, having regard to the interests of all shareholders, and striving to be independent of the influence of the management and any given shareholder. The members of the Board of Directors, in their capacity as Board members, may not be given orders by the shareholders of the Company or their employer.

In 2021, the Board of Directors carried out its activities based on an annual work schedule. The Board of Directors holds meetings as frequently as necessary, but at least once every three months. The Board of Directors discusses matters conferred to its authority based on written proposals. It makes its decisions in the form of resolutions, based on the draft resolutions submitted by the proposing person. The proposals and the related draft resolutions are prepared by the management for the Board of Directors. The head of the organisation preparing the proposal and the Deputy CEO exercising professional supervision, or in the absence of such person, the CEO exercising professional supervision shall be responsible for the substantive soundness of the proposals. The members of the Board of Directors shall be notified regarding the time and date and agenda of the Board meetings 8 business days prior to the meeting, and the written proposals shall also be sent to them together with this notice.

The Board of Directors has a quorum if at least half of the Board members is present at the meeting. The Board of Directors passes its resolutions via open ballot, with simple majority of votes (with the exception of the cases set out in the Rules of Procedure of the Board of Directors). Members of the Board of Directors concerned in any manner in the matter discussed may not participate in the passing of the resolution. The chairman of the Board of Directors orders a secret ballot upon the request of any member of the Board of Directors.

In emergencies, the Board of Directors may also pass resolutions validly via phone, fax or other means, provided that the Company delivers the proposal requiring decision to the Board members in writing, at least by electronic means, and more than half of the members execute their votes in the form of a private instrument with full evidencing force, and send such instrument to the registered seat of the Company within five days.

The chairman of the Supervisory Board or the Supervisory Board member appointed by the chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as permanent invitee. The chairman of the Board of Directors may invite the auditor or asset controller of the Company or any other person, who may participate in a consultative capacity. The supervisor of the Central Bank of Hungary (the supervisory body is hereinafter referred to as: "Supervisory Authority", acting in its supervisory role on the system of financial intermediation) responsible for supervision of the Company, and the representatives of MTB Zrt. and the Integration Organisation of Cooperative Credit Institutions were invited to all meetings of the Board of Directors.

The chair of the Board of Directors is elected by the general assembly. The work of the Board of Directors is controlled by the Chairman. If the chairman is prevented from performing its tasks, the Board member designated by him/her shall be responsible for performing the chairman's tasks.

The scope of tasks and authority of the Board of Directors are set out in detail in the Articles of Association and the Rules of Procedure of the Board of Directors. The authority of the Board of Directors includes powers related to the strategy and business and financial activity of the Company, tasks and powers related to the operation and organisation of the Company, powers related to capital increase and own shares, powers related to the control of companies under joint supervision with the Company, company founding and investments, rights related to representation of the Company, and powers related to the operation of the Board of Directors.

In 2021, the senior management of the Company was composed of the following: CEO, Deputy CEO. Both were also internal members of the Board of Directors. The Board of Directors exercises the employer's rights over the members of the management via the chairman of the Board of Directors.

The CEO is an employee in employment relationship with the Company, and is the senior manager employee of the Company. The CEO shall perform the management and controlling of the Company's daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, to the employment relationship of the Chief Executive Officer the Labour Code, while to his/her election to the Board of Directors and his/her Board membership the Credit Institutions Act and the rules of the Civil Code on service contracts applied and shall apply.

The Board of Directors and the CEO share the tasks as follows: The CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association, in accordance with the resolutions passed by the general assembly and the Board of Directors. The CEO shall be responsible for taking a decision in cases which do not fall within the exclusive competence of the general assembly or the Board of Directors. The CEO shall regularly inform the Board of Directors and – between the meetings – the chairman of the Board of Directors regarding the matters related to the operation of the Company. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the members of the Board of Directors.

The CEO shall exercise the employer's rights over the employees of the Company, except with regard to the Deputy CEO. The division of tasks and powers of the CEO and the Deputy CEO within the organisation is set out in the by-laws of the Company, and the Board of Directors has the power to approve any amendment thereof that would result in significant organisational changes.

2. Members of the Board of Directors, the Supervisory Board and the management

2.1. Board of Directors

In 2021, the following persons were members of the Board of Directors of the Company:

External, independent members who do not have any other legal relationship with the Company:

VIDA József, chairman – Member of the Board of Directors since 30 November 2016, chairman of the Board of Directors since 5 December 2016

He is an economist who studied business management, as well as liquidation and bankruptcy law in several universities. Chairman-CEO of Takarékbank Zrt. and the MTB Magyar Takarékszövetkezeti Bank Zrt., CEO of the Magyar Bankholding Zrt.
His career in the banking sector started at Citibank Zrt. in 1999. In 2003, he switched from the position of Head of Department General of Magyar Takarékszövetkezeti Bank (Bank of Hungarian Savings Co-operatives) to the position of Director of the Active Business Line of Szentgál és Vidéke Takarékszövetkezet (Szentgál and Surroundings Savings Co-operative), of which he became the Managing Director in 2006 and then the CEO.
Under his leadership, by the fusion of ten savings co-operatives, B3 SAVINGS Co-operative was founded on 1 September 2015. In 2014, he was awarded the Károlyi Sándor memorial plaque for his outstanding efforts in relation to the development of the integration of savings co-operatives. VIDA József assumed a key role in the integration of savings cooperatives and in ensuring Takarék Group's competitiveness and long-term prosperity. Under his lead, the former FHB Group was integrated into Takarék Group. In 2017, twelve regional credit institutions were created by fusing fifty-two savings banks. The resulting dozen institutions were united in a single, countrywide, universal commercial bank, Takarékbank Zrt. in two steps in 2019.
In addition to the work he does for cooperatives, he is a farmer, breeding horses and keeping bees. In 2016, he graduated as a Forestry and Wildlife Management Technician and holds senior positions in several organisations, including a membership in the Board of Trustees of the Foundation for the University of Physical Education and the Hungarian Banking Association.

SOLTÉSZ Gábor Gergő – internal member prior to 30 November 2016, external member after that from 1 December 2017 until 30 November 2021

In 2003, he graduated from the Budapest University of Economic Sciences and Public Administration in Finance. Between 2003 and 2004, he worked for OTP Bank Nyrt. in the field of Credit Analysis and Monitoring, and then from 2004 to 2006, for Raiffeisen Bank Zrt. in the field of Project Financing and Loan Syndication. From March 2006, he was Deputy Head of Department of the Corporate and Structured Financing Directorate of FHB Bank Zrt. From 2008, he was Managing Director of the Corporate Directorate and, from 1 December 2010, the Deputy CEO of FHB Kereskedelmi Bank Zrt. He has been a member of the Board of Directors since 24 April 2013. He also held the office of CEO at FHB Bank Zrt, where he was also a member of the Board of Directors.

HEGEDŰS Éva – member of the Board of Directors since 18 October 2018

She graduated from the Budapest University of Economics. She started his professional career at a consulting company, from where she moved on to governmental institutions. As a deputy state secretary at the Ministry of Finance, and later at the Ministry of Economy, she managed the preparation of several laws that constitute the fundamentals of market economy in Hungary (Act on Credit Institutions, Act on Bankruptcy, Act on Electric Power), and she coordinated the establishment of several institutions (e.g. Hitelgarancia Zrt.).
Beginning in 1997, she organised the restart of issue of mortgage deeds in Hungary as the Deputy CEO of the Földhitel és Jelzálogbank (Land Loan and Mortgage Bank). From 2002, she managed the Residential Business of OTP Bank, and she was the chairwoman of the OTP Lakástakarékpénztár (Building Savings Co-operative). Since 2010, she has been managing GRÁNIT Bank.
She was responsible for developing the digital business model of GRÁNIT Bank, thanks to which, the bank – providing services mainly via electronic channels – developed many leading digital financial solutions.

She is a member of the Hungarian Banking Association and the Secretary General of the Hungarian Economic Society. In 2015, she was voted "Banker of the Year" by a secret ballot of bank executives, in 2016 she was named "Female Manager of the Year" and in July 2021 she was awarded the 2020 Manager of the Year Award, in addition to numerous other national and international awards.

SASS Pál – He has been a member of the Board of Directors since 31 October 2019
He graduated from the Budapest University of Economic Sciences and Public Administration in Foreign Trade in 1990. Following graduation, he studied economics at the Yokohama National University within the framework of a Japanese scholarship. He started his career at the Department of International Interbank Relations of Iparbankház Rt., where he was dealing with international interbank relations and banking operations. From 1996, as Director of the Structured Financing Department of OTP Bank Nyrt., he oversaw the loan syndication and international lending transactions, as well as the banking group's fundraising (bond issuance, borrowing) activities. From 2008, as Chief Consultant of OTP Hungaro-Projekt Kft., he dealt with corporate-, lending- and strategic consulting. From 2010, he was Managing Director of the Directorate General for Borrowing and Liquidity Management of the Hungarian Development Bank. From 2014, as Deputy CEO of Magyar Takarékszövetkezeti Bank Zrt., he headed a business division of the bank (Corporate Lending and Treasury). From 2016, he was Chief Business Advisor on lending, capital markets and strategic affairs of the of Magyar Takarékszövetkezeti Bank Zrt. Since 1990, he has attended and delivered speeches at numerous Hungarian and international conferences on the Hungarian banking system and economy, and has been teaching as a lecturer.

GINZER Ildikó – External member of the Board of Directors since 3 December 2021
She graduated from the Corvinus University with a degree in economics and a degree in economics teaching. She started her professional career at Raiffeisen Bank in 2004 in the Project Finance and Syndicated Lending Department, and continued as Director of Corporate Receivables Management Department and then as Head of Department until 2016. In 2016, she spent more than six months as a consultant at Borealis AG in Vienna. She then continued her career at MKB Bank as Deputy Chief Executive Officer for Risk Management and Business, and has been a member of the Board of Directors since September 2021. Since June 2021 she has also been Deputy Chief Executive Officer for Business of Magyar Bankholding Zrt. and since November 2021 she has been Deputy Chief Executive Officer for Business responsible for standard services at Takarékbank Zrt., MTB Zrt., Budapest Bank Zrt. and MKB Nyrt.

Internal members in employment relationship with the Company:

Dr. NAGY Gyula, CEO – since 26 April 2017

He graduated from the Foreign Trade specialty of the Budapest University of Economics in 1976, after which, in 1981 he also acquired specialist economist qualification, as well as a doctorate in economy. From 1977, worked as the Head of the Export Department of the Ganz Electricity Meter Plant, and later he worked as a salesman of Unicbank Rt and the Head of the Large Corporation Partner Relations Department of Citibank Hungary Rt. He managed the Corporate Business of BNP-Dresdner Bank Rt between 1991 and 1995, and of HVB Bank Hungary Rt between 1995 and 1999. He was a Deputy CEO and member of the Board of Directors of HVB Bank Hungary Rt between 1999 and 2001, and the CEO of Unicredit Jelzálogbank Zrt between 2001 and 2007. From October 2007, he has headed the Partner Refinancing and Integration Independent Department of FHB Nyrt., where he managed the refinancing activities of FHB Group. Since 26 April 2017, he has been the CEO of FHB Jelzálogbank Nyrt. (currently Takarék Mortgage Bank Co. Plc.). He is a master-level property expert and a member of the Research and Statistics Working Group of the European Mortgage Federation.

MÉSZÁROS Attila, Deputy CEO – external member of the Board of Directors between 30 November 2016 and 26 September 2018, internal member of the Board of Directors since 11 October 2018

He also has agricultural engineer qualification, qualification as engineer with specialty degree in economics, and two MBA qualifications. He worked at Credit-Lyonnais Magyarország Bank Zrt, and between 2001 and 2007, at the Directorate of Large Corporation Relations of K&H Bank Zrt, and as the director of the Credit Risk Management Directorate of the same. Between September 2007 and December 2009, he managed the Restructuring Department of MKB Bank Zrt, and then he held the office of CEO and chairman of the Board of Directors of the Romanian debt collection subsidiary of MKB Bank Zrt. From November 2011, he worked as a financial restructuring consultant at Ernst&Young Tanácsadó Kft, and later in his own company. Between July 2014 and February 2015, he worked under the mandate of Pénzügyi Stabilitási és Felszámoló Nonprofit Kft as a supervisory commissioner during the winding-up of five credit institutions. From 2015 to 2017, he was Head of Subsidiary Management at the Integration Organization of Cooperative Credit Institutions, from April 2017 he worked as Managing Director responsible for risk areas at MTB Magyar Takarékszövetkezeti Bank Zrt, and from November 2017 to 16 November 2021 he was Deputy Chief Executive Officer of the Risk Management Division of the Savings Group.

At its extraordinary general assembly held on 23 November 2021, the Company re-elected members of the Board of Directors VIDA József, Dr. NAGY Gyula, MÉSZÁROS Attila, HEGEDŰS Éva and SASS Pál, while GINZER Ildikó was elected as a new member.

2.2. Supervisory Board, Audit Committee

In 2021, the following persons were members of the Supervisory Board of the Company:

DR. HARMATH Zsolt chairman - as of 2 January 2017

He had obtained his undergraduate degree in 1999 in Economics, then qualified as a Chartered Accountant. He finished his postgraduate studies in Law in 2005.
From 1999 to 2010 he was employed by Magyar Posta Zrt. where he climbed the corporate ladder. He had started as a cost analyst / controller at the Budapest Directorate, then became Head of Department of Economics in 2001 and Deputy Director of Finance in 2003. From 2005 he had comprehensive responsibility for the financial module of the enterprise resource planning system at Magyar Posta.
He had been Director of the management control system, accounting and asset valuations at the Magyar Nemzeti Vagyonkezelő Zrt. from 2010, then became Head of Finance in 2014, and as of 2019, the Deputy CEO responsible for Companies.
He holds top positions in several companies. For example, he is the Chairman of Büki Gyógyfürdő Zrt.'s Supervisory Board, and a member of Magyar Posta's Board of Directors, and Richter Gedeon Nyrt.'s Supervisory Board.

DR. KOVÁCS Mónika – Member of the Supervisory Board since 2 January 2017

Lawyer, she obtained her degree at the Faculty of Law of the University of Pécs. She started her career in 2005 at the Magyar Közlöny Lap- és Könyvkiadó Kft. as a lawyer. From 2009 she managed the gazette and the electronic publications business as Business Director. Her responsibility covered the legal matters as well as the management of the customer services and sales points, and the complete editorial board. Between 2005 and 2008 she worked as an external lecturer at the Department of Constitutional Law at the University of Pécs. She was a member of the Supervisory Board at Magyar Posta Zrt. and also worked as deputy state secretary at the Ministry of National Development.

PÓRFY György – Member of the Supervisory Board from 2 January 2017 until 31 March 2021

He graduated at the University of Economics. He has been working since 1994 in banking, first he had started at Merkantil Bank, then filled management positions at BNP-Dresdner Bank Hungária Rt. and later at Kereskedelmi és Hitelbank Rt, then from 2002 he became Head of Department, then managing director at the Directorate for Large Enterprises at Unicredit Bank Hungary Zrt. He had been CEO of Unicredit Leasing Hungary Zrt. from 2010 and then became CEO of Unicredit Jelzálogbank Zrt. from 2012. From 2016, he was Managing Director of the Corporate Business Line of MTB Zrt., and since 1 May 2019, he has been holding the same position in Takarékbank.

DR. REINIGER Balázs – Member of the Supervisory Board since 2 January 2017

Lawyer, Head of Office at Reiniger Law Firm. He was born in Budapest in 1977. He completed his legal studies in 2001 at the Faculty of Law of Eötvös Loránd University with excellent results. He studied law simultaneously with Hungarian then Finnish scholarship at the Faculty of Law of the University of Helsinki. He had spent his years of internship at international law firms, then after successfully taking the professional exam he founded his law firm in 2005 with his own name, which he has been managing since that time, representing domestic and international companies in economic and commercial cases and providing strategic consultation. Dr. REINIGER Balázs is a member of Budapest Bar Association's Presidency, the Hungarian Bar Association's Meeting of Delegates and Legislative Committee; he is the Vice President of the Arbitration Panel of the Hungarian Chamber of Agriculture and an Arbitrator of the Arbitration Panel assigned to the Hungarian Chamber of Industry and Commerce.

DR. GÖDÖR Éva – Member of the Supervisory Board since 1 August 2018

Lawyer, Head of Office at Dr. Gödör Law Firm. She obtained her legal degree at the Faculty of Law of Eötvös Loránd University in 2002 and passed her bar examination in 2006. During her trainee solicitor years, she dealt with civil- and criminal cases, later she turned her focus towards civil law. She has been working as a full-fledged solicitor since 2007. She founded her law firm in 2012, primarily supporting the activities of several players of the domestic financial sector and their subsidiaries from the very start. She participated in the implementation of asset transfers, re-organisations and mergers of financial institutions. Her specialisations include immovable properties, property investments, corporate law, financing, wind-up, support of the activities of financial institutions, fusions, acquisitions, due diligence, project support, and execution of procedures relating to nonprofit organizations. She has been a member of OPUS GLOBAL Nyrt.'s Supervisory Board since April 2018.

GÖRÖG Tibor – member of the Supervisory Board since 15 October 2018

He graduated at the Faculty of Economics of the University of Novi Sad. With more than 20 years of experience in domestic and international finance and economics he joined the savings cooperative industry in 2012. From 2015, he was Strategic Managing Director of 3A Takarékszövetkezet, and from 2018, Deputy CEO of Takarék Kereskedelmi Bank Zrt. Until 3 June 2018, he was a member of the Supervisory Board of Magyar Takarékszövetkezeti Bank Zrt.; subsequently, he was appointed Head of the Operations Division. As of 2019, he has been CEO of Takarék Követelés Kezelő Zrt. In 2020, he became member of MTB Zrt.'s Board of Directors. He is also a member of the Supervisory Board of the Integration Organisation of Cooperative Credit Institutions, and a member of the Board of Directors of Magyar Takarék Ellátó Zrt.

All of the above members of the Supervisory Board are independent, they do not have any other legal relationship with the Company. Accordingly, the general assembly of the Company elected members of the Supervisory Board DR. HARMATH Zsolt and PÓRFY György and, following PÓRFY György's resignation, dr. GÖDÖR Éva and GÖRÖG Tibor as members of the Audit Committee established in accordance with the Credit Institutions Act.

2.3. Company management

In 2021, the Company's management included the following members:

CEO:
DR. NAGY Gyula since 26 April 2017
Internal member of the Board of Directors. See introduction in Section 2.1.

Deputy CEO:
MÉSZÁROS Attila - since 11 October 2018
Internal member of the Board of Directors. See introduction in Section 2.1.

Detailed introduction of the professional career of the members of the Board of Directors, the Supervisory Board and the Management is available on the Company website (www.takarekjzb.hu).

3. Information on the work performed by the Board of Directors and the Supervisory Board in 2021

3.1. Description of the work performed by the Board of Directors in 2021

3.1.1 Summary of the tasks executed by the Board of Directors

The Board of Directors had a total of 5 meetings in 2021, whereof 4 was held jointly with the Supervisory Board. On 57 occasions, resolutions were passed without a meeting. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The Board of Directors, apart from deciding on tasks set out in the work schedules, many times decided at the meetings and within the scope of written voting on matters not stated in the work schedule but within the competence of the board.

In most of the cases the reports, notices and other proposals compiled by the management or in cooperation of the manager of the field of practice concerned in the consideration of the reviewed topic were submitted in a written form to be on the agenda of the meetings. The Board of Directors discussed the topics on its agenda with due diligence, the members of the board supplemented and clarified the proposals on a regular basis with their professional comments and remarks, or phrased amendments where it was applicable.

Out of the topics discussed by the Board of Directors in 2021, the following should be highlighted:

- In 2021, the Board of Directors continued to pay particular attention to the implementation of the applicable integration policies.

- In 2021, the Board of Directors continued to pay particular attention to the implementation of measures targeting the establishment of a clear mortgage bank profile.

- During the 2021 meetings, carrying on with the practices of the previous years, the Board of Directors discussed the management report on the current business and financial situation of the Company as a permanent item of the agenda, and in doing so, they were able to monitor the operation and financial position of the Company in an ongoing manner. As a result of that the Board of Directors always had sufficient information during the year on the internal and external conditions impacting the operation of the Company, it was able to identify situations that may result in negative impacts, and respond to them with the necessary measures, and to support the work of the management with professional recommendations.

- In 2021, the Board of Directors continued to pay particular attention to the analysis of the financial operations of the Company.

- In 2021, the Board of Directors continued to discuss regularly and quarterly the management reports on the lending, liquidity, market and operational risks of the Company.

- The Board of Directors discussed the quarterly reports of the Compliance and Banking Security Directorates (Compliance Directorate and Banking Security Directorate after 16 June 2021) for 2021 and the implementation of the tasks set out in the work plan

- In 2021, the Board of Directors continued to deal with issues related to the implementation of the Remuneration Policy.

- The Board of Directors found the management proposals focusing on the amendment of policies delegated to its competence to be sufficiently substantiated in every instance, and approved them while concluding a decision on a minor amendment.

- In 2021, the Board of Directors continued to pay attention to audits conducted at the Company by external authorities (such as the National Tax and Customs Administration and the Central Bank of Hungary), and to the development and implementation of action plans associated with the conclusions of audits. None of the audits have concluded any non-compliance or objection against the work of the Board of Directors.

3.1.3. The Board of Directors' cooperation with other organisations

The Board of Directors sustains a cooperative and fair relationship with the Supervisory Board and the management. The CEO of the Company was present at every board meeting where it provided detailed information on current matters concerning the operation of the Company, and gave response to questions arising within the scope of the agenda. The chairman of the Supervisory Board was always invited to the meetings of the Board of Directors, where it was able to elaborate its opinion and recommendations at all times, therefore the shareholders' representation was always ensured during the management of the Company. Nevertheless, the consultations and exchange of ideas between the chairmen of the two bodies, the CEO and its deputy, were regular between the individual meetings.

3.2. Description of the work performed by the Supervisory Board in 2021

3.2.1 Summary of the tasks executed by the Supervisory Board

The Supervisory Board of the Company (hereinafter: "SB") operated in 2021 in accordance with the approved work schedule. The work schedule included the individual tasks of the board, and the review of the audits executed by the internal audit team (hereinafter: "Internal Audit") of the Company. In 2021, the SB held 4 meetings jointly with the Board of Directors, and resolutions were passed without a meeting on 32 occasions. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The SB, further to the consideration of the regulations of the Hungarian Civil Code and the Credit Institutions Act, gained information on the business and financial position of the Company on an ongoing basis, and on the most important relevant questions concerning the operation, and on the meetings of the Board of Directors and the decisions concluded by them.

Further to that, the SB reviewed, discussed and evaluated other topics within the scope of its own initiative, such as:

- implementation of the tasks included in the action plans prepared in consideration of the internal audit reports of 2021,
- the quarterly reports of the Company on its lending, market, liquidity and operational risk, and
- the quarterly reports of the Compliance and Banking Security Directorates (Compliance Directorate and Banking Security Directorate after 16 June 2021) and the implementation of the tasks set out in the work plan.

In 2021, the SB continued to pay attention to the audits conducted at the Company by the Supervisory Authority and other external authorities, and to the development and implementation of the action plan associated with the conclusions of the audits. None of the audits have concluded any non-compliance or objection against the work of the SB.

The SB thoroughly discussed the audits conducted by the Internal Audit team in different topics. These audits fundamentally targeted governance, management, administration (process), compliance and IT security. Accordingly, the inspections included, inter alia, an examination of the activities carried out by intermediaries, a review of the valuation process and the establishment of the value of collateral, the accounting practices for economic events related to credit transactions, and the data reporting to the MNB and other bodies (Keler). On the IT side, the review of Outsourcing, business continuity and disaster management. They also included compliance audits in terms of the business and operation of the Company, and audits in consideration of the compliance with the resolutions of the Central Bank of Hungary and ISZ, the Integration Organisation of Cooperative Credit Institutions.

The Internal Audit department, in accordance with the regulations of the Credit Institutions Act, regularly informed the Supervisory Board and the Company's management about the results of conducted investigations and the implementation of action plans prepared as a response to the conclusions of the internal audits. The Internal Audit team provided information on the operation of the control functions, on the revealed deficiencies impacting the achievement of the objectives of the Company as well as its performance.

The SB paid particular attention to the Company to have a comprehensive and efficient control system. The internal audit system, earlier approved by the SB, was operational in 2021 at the level of the Takarék banking group, in accordance with the relevant legal regulations, the Recommendations on Responsible Corporate Governance and the Authority's recommendation on operating inner lines of defence.
The Internal Audit team has its own medium term strategic objectives until the end of 2022, approved by the SB. An attachment of this is the risk map and the audit universe serving as the fundamental basis of the Internal Audit team's planning. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors ("IIA") – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.

3.2.2. The operation of the Supervisory Board

The meetings' agenda mainly consisted of written reports and proposals. The board members had no formal division of labour. The members - according to their different professional competence and experience - represented different points of view during the evaluation of certain inquiries' results.

3.2.3. The Supervisory Board 's cooperation with other organisations

In 2021, the Supervisory Board worked together with the Board of Directors, the management and the Company's auditor continuously, objectively and successfully. The chairman of the SB participates in board meetings as a constant guest, where he had the opportunity to explain his point of view representing the SB.

The CEO and/or his deputy CEO participated in every board meeting, informed the board members appropriately and gave detailed answers to their questions.

Consultations and discussions between the Board of Directors, the chairman of SB and the CEO were provided even between meetings.

The auditor participated in the SB's meetings as a constant guest, where he supported the board's work with his professional observations if needed.

4. Description of the internal audit system and evaluation of its operation in 2021

In 2021, the internal audit system was implemented at banking group level in accordance with the relevant legal regulations, with Recommendations on Responsible Corporate Governance and with MNB's recommendations on operating inner lines of defence. The internal audit system contains elements of responsible internal governance, risk management, compliance function, as part of the internal audit system the control that is built in work procedures, management control and independent internal audit function.

The Company's management unites under responsible corporate governance the activities of the organisational units representing control function elements, informs about compliance with principles, expects reports and in its decisions certain control functions' statements and experiences are reflected.

Changes in the compliance function within the internal lines of defence:

In the Integration, compliance and banking security functions were centralised as of 1 June 2019 and since then, these tasks have been performed at a group level by the Compliance and Banking Security Directorate of MTB Magyar Takarékszövetkezeti Bank Zrt. based on a service level agreement (SLA); the organisational scope of group-level regulations have been extended to cover affiliated companies.

The MTB Zrt. Compliance and Banking Security Directorate has been split into Compliance Directorate and Banking Security Directorate with effect from 16 June 2021, and at the same time the Protection Directorate has been dissolved and the Money Laundering Prevention and Conflict of Interest Directorates which were part of it have been merged into the Compliance Directorate.

The Compliance Directorate is currently divided into six fields of expertise:
1) Data protection,
2) General compliance,
3) Consumer protection,
4) Capital market compliance,
5) Prevention of money laundering,
6) Conflict of interest
These functions have been under the direct control of the Compliance Director of the Directorate since July 2021.

4.1. Summary of risk management principles

Takarék Jelzálogbank is a member of the Central Organization of Integrated Credit Institutions[1] (hereinafter: Integration Organisation) and the banking group led by the Magyar Takarékszövetkezeti Bank Zrt. (hereinafter: MTB Zrt or MTB).

1 before 15.07.2020: Integration Organisation of Cooperative Credit Institutions

The Integration Organisation and its members are jointly and severally liable for one another's obligations in accordance with the provisions of Act V of 2013 on the Civil Code. Joint and several liability covers any and all claims against the Integration Organisation and its members, irrespective of the date when such claims arise.[2]

Pursuant to the decision of the Central Bank of Hungary (Resolution No H-JÉ-I-209/2014), members of the Integration are exempt from the prudential requirements applicable to credit institutions and investment firms and from the individual application of the provisions of Part Two–Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (of 26 June 2013) on prudential requirements (CRR) and the amendment of Regulation (EU) No. 648/2012. The group led by MTB Zrt. shall meet these requirements collectively, in a consolidated manner.

MTB Zrt., as the entity managing the Integration's business activities, controls credit institutions and companies that are consolidated in terms of meeting prudential requirements on a consolidated basis in order to achieve the strategic goals of the Integration. Accordingly, it ensures that the risk management principles, methods, risk assessment, measurement and control procedures are unified and harmonized within the Integration and meet the legal requirements. Integration members make their own risk management decisions independently in accordance with the Integration's principles, regulations and within the framework set for the Integration and its members.

The Integration's business goals are defined and reached by bearing the risk appetite in mind. The risk appetite needs to be harmonised with the financial resources which are available to cover possible losses. Risk management's main aim is to protect the Integration's financial power and good reputation and to contribute to business activities enhancing the shareholders' value.

MTB Zrt. has been a member of the Magyar Bankholding Zrt. Group since 16.12.2020. The Magyar Nemzeti Bank has determined by its Decision No. H-EN-I-70/2021 dated 17.02.2021 that pursuant to § 172 of Act CCXXXVII of 2013 on credit institutions and financial undertakings (Credit Institutions Act) Magyar Bankholding is subject to supervision on a consolidated basis and is required to comply on a consolidated basis with the requirements of Chapter 2, Section 1 of 26 June 2013 Regulation (EU) No. 575/2013 (CRR) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
The MNB also specified in Decision No. H-EN-I-70/2021 which undertakings are subject to supervision on a consolidated basis and prudential consolidation. Previously, the members subject to supervision on a consolidated basis, including Takarék Jelzálogbank, were included in the supervision on a consolidated basis of Magyar Bankholding, with MTB complying on a sub-consolidated basis with the obligations under Parts 2 to 8 of the CRR and Title VII of the CRD in respect of the members of the MTB group, including Takarék Jelzálogbank.

The boards and committees of Takarék Jelzálogbank discuss regularly the proposals concerning the review and modification of risk measurement and management methods, procedures and the reports presenting risk developments.

4.2. Risk management organisation

The risk management organisation of Takarék Jelzálogbank is separated from the business units and is supervised by the Deputy CEO.

4.3. Monitoring, feedback

[2] Section 5/A (1) of Act CXXXV of 2013 on the integration of savings cooperatives and the amendments to economic related acts.

The Company operates elements of inner lines of defence with regard to relevant legal regulations and supervisory recommendations in order to minimise risks. Accordingly beyond operating the risk management organisation

a) the Compliance Directorate (hereinafter "Compliance Directorate") of MTB Zrt. ensures within Takarék Group, thus also in the Company, compliance with principles and regulations of legal regulations, other professional practices that are not equivalent to legal regulations, authority's recommendations, guidelines and decrees and with inner rules (hereinafter: „compliance rules"), the prevention and control of their violation, and

b) operates the internal audit system, the parts of which (management control, that is built in work procedures, management information system and independent internal audit function) spread on very institution and activity of the Company, are built in daily activities and can be traced; furthermore, they give regular feedback to the relevant management, governance level.

a) The Compliance function is performed by MTB Zrt.'s Compliance Directorate under a service level agreement (SLA). The Compliance Directorate coordinates and ensures the fulfilment of compliance rules and the performance of compliance audits of members of the banking group.
The Compliance Directorate carries out its work based on an annual work schedule – also covering Takarék Jelzálogbank – approved by the executive body of MTB Zrt.

Aim of its activities is to support - on bank group level, in the Mortgage Bank as well - the organisations' prudent, reliable, efficient operation in compliance with legal regulations and to assist in the organisation's smooth and sufficient operation, to maintain trust in the institution, furthermore, to help group members avoiding legal sanctions (supervisory, competition law, compensation, etc.), great financial loss and reputational damage.

General compliance

The main objective of developing a general compliance function within the Compliance Directorate is to continuously monitor compliance with the legislation and internal regulatory instruments that ensure the transparency of the Company's operations, to promote the enforcement thereof and to effectively manage reputational risks. To ensure this, the purpose of the General Compliance operation is to contribute to the smooth and prudent operation of Takarék Jelzálogbank by identifying, assessing and managing compliance risks.

Capital Market Compliance

Within the framework of the Capital Market Compliance activity within the Compliance Directorate, it maintains a list of insiders for the Takarék Jelzálogbank and informs persons with access to insider information about their inclusion in the insider list. Capital Market Compliance also keeps a list of all persons discharging managerial responsibilities and persons closely associated with them for Takarék Jelzálogbank.

Preventing and combating money laundering and terrorist financing

The Money Laundering Prevention Unit within the Compliance Directorate carries out screening and analysis activities, using customer record systems and external software, to support the operation of a modern and effective money laundering prevention system by screening and analysing customers and transactions on a risk basis. Through its analytical and assessment activities, this field of expertise identifies and mitigates existing and future customer, transactional and geographical risks, thereby supporting risk management and business processes.

Consumer protection + Consumer Protection Officer

The Consumer Protection Centre within the Compliance Directorate performs consumer protection control functions and provides support to the Company, thus helping Takarék Jelzálogbank to comply with consumer protection requirements. As part of the group-wide consumer protection function, notifications are also forwarded to the so-called Consumer Protection Officer (CPO), who is appointed from the staff of Consumer Protection operating within the Integration Business Management Organisation.

Data protection

The Compliance Directorate's Data Protection Centre performs group-level personal data protection and confidentiality tasks in accordance with the integration-level Privacy Policy and Confidentiality Policy issued by the Central Organization of Integrated Credit Institutions. Certain activities carried out at the integration level in 2021 also indirectly served the data protection compliance of Takarék Mortgage Bank Co. Plc. (e.g. updating the General Data Protection Notice and other data protection documents, checking the paths to data protection documents on websites, and standardising them). Specifically with regard to the personal data protection activities in the mortgage bank, the activity started in 2020 to update the data management register and to prepare the data management information tailored to the mortgage bank's activities will be delayed, despite the prioritisation of the Data Protection Centre, together with other tasks; the settlement of these is expected in the first half of 2022, subject to an increase in the intensity of joint work. Notwithstanding the delay in the completion of certain tasks, the Data Protection Centre has not identified any significant data protection compliance risks related to the operations of Takarék Mortgage Bank Co. Plc.

Conflict of interest

Tasks related to the handling of cases of conflict of interest are carried out by the Conflict of Interest operating within the Compliance Directorate.
In accordance with the provisions of the Credit Institutions Act and the Group Conflict of Interest Policy, during their employment, employees may not engage in any conduct that would jeopardise Takarék Jelzálogbank's legitimate economic interests.
This function also conducts conflict of interest investigations for candidates during the pre-employment process, for employees already having an employment contract and also for senior executives.
In addition to identifying and managing conflicts of interest involving employees, in order to avoid and prevent any potential conflicts of interest, this function conducts documented reviews during the sale of receivables or assets to determine whether the buyer has any interest in the debtor of the receivable to be sold. This function is also responsible for conducting conflict of interest investigations of intermediaries and of service providers to which activities are to be outsourced (before the conclusion of the relevant contracts).

Fraud prevention

The Banking Security Directorate's Fraud Prevention Department is responsible for conducting investigations into internal and external abuses and crimes and for operating preventive monitoring systems. The field of expertise carries out human security activities for employees, and participates, among other things, in the performance of activities related to classified requests from authorities in accordance with applicable laws.
Based on the records of the field of expertise, there was no fraud incident or suspected fraud at Takarék Jelzálogbank in 2021.

Fulfilling the SLA contractual obligation, MTB, as Business Management Organisation of the Integration, through its quarterly reports informed the Board of Directors and the Supervisory Board of MTB about the activities of the Compliance Directorate relevant to the Company and the compliance related activities of the Company, as a member of the banking group.

ad b) Elements of control and management control built in work procedures were included in job descriptions and current procedures, the application principles were included in internal orders, organisational and operational regulations about control systems. The application principles were established in order to support the Company's efficient operation, reaching the Company's goals, the operation in compliance with legal regulations and the identification of possible risks with providing appropriate solutions to them.

An integral part of internal audit is the independent Internal audit organisation.

The independence of the Bank's internal audit organisation is ensured by the relevant regulations because according to these, the internal audit/internal auditor cannot be entitled to any other position than controller and cannot participate in bank procedures, decisions. The annual work schedule of Internal Audit is approved by the SB; further audit tasks can only be determined by the SB and the Head of Internal Audit, in agreement with the SB and the Company's CEO. The Supervisory Board is managing the internal audit organisation. The Head of Internal Audit has a reporting obligation to the SB. The direct technical management of internal audit activities is carried out at a banking group level, while methodical guidance through Integration Organisation.

The internal audit informed the Supervisory Board and the Company's management about the results of conducted investigations according to regulations of Credit Institutions Act. The Company's internal audit reports to the SB about its activity and informs about control function operations and revealed deficiencies. The Internal Audit is continuously monitoring and controlling the fulfilment of measures to eliminate the revealed deficiencies and regularly reports about it to the SB and the Company management. As the Company joined to the Integration Organisation, the Company's internal audit organisation had an obligation to data reporting towards MTB Zrt's internal audit, its base is to be applied obligatory by the Company and is part of MTB Zrt's internal audit regulation system for the Integration.

The Internal Audit's activity planning and its fulfilment is based on risk analysis, which analyses and examines the whole scale of business procedures. Also in 2021, Internal Audit had an internal audit strategy (with long-term audit plan), internal audit regulations, a manual to support internal audit tasks, a risk and examination result assessment methodology, regulations for the reporting and information system, all approved by the SB. Taking all these into account, it prepares the internal audit's annual work schedule which is afterwards approved by the SB. Taking its competency into account, it has access to all information and documents needed for the examinations.

Internal Audit's main tasks for 2021 were to support, through the conduct of general and thematic audits, the achievement of the Company's and Takarék Group's strategic goals, proper operation, the control system's operation, with particular regard to the performance and compliance of refinancing activities and the issuance of mortgage-backed securities, as well as to meet the expectations of the Company's managers and control bodies and carry out the tasks determined by the same, based on the experience gained from previous years' audits and adjusting the audits to the market environment. A key task and aim was to review compliance with the legal framework in practice and regularity, in order to reduce risks. A further aim was to ensure that audits promote the efficient functionality and operation of control systems to identify and eliminate any deficiencies in the field of meeting the requirements applicable to controls built in work procedures and to managerial controls, and to have feedback in a relatively short period of time in case of a new activity or work procedure in order to handle any deficiencies and risks efficiently.

4.4. The auditor's activities

The Company's auditor for the 2021 financial year was Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered seat: H-1068 Budapest, Dózsa György út 84/C.; registration number: 01-09-071057; chamber of commerce member no: 000083; registration number as a qualified financial institution at the Authority: T-000083/94; hereinafter: „Auditor"). On behalf of the Auditor, the audit tasks were carried out by MOLNÁR Attila (mother's name: WÜNCS Olga; address: H-1147 Budapest, Istvánffy u. 41.; tax identification number: 8419861804, Chamber of Hungarian Auditors (MKVK) number: 007379; hereinafter: „natural person auditor").

In 2021, Deloitte Könyvvizsgáló és Tanácsadó Kft. completed its assignment of performing the annual auditing tasks.

5. Presenting the Company's publication policy and insider trading policy

5.1. The Company's publication policy

The Company's Board of Directors attaches great significance amongst the requirements of responsible corporate governance to the transparency of Company operations because the Company's publication policy affects its reputation. Information that reflects efficient operations authentically has strategic importance if it enhances shareholders' and other concerned parties' trust towards the Company.

The Company has to fulfil every announcement and publication obligation in accordance with legal regulations, in a compulsory form until the deadline. The Company has further responsibility beside its publication obligation to prevent suspicion of information misuse against any employee and to provide the same information at the same time for every shareholder by announcing them organised. The management is obliged to ensure that the Company's publication practice is in accordance with the Board of Directors' principles.
The Company ensures that during information publication the information is accurate, obvious and understandable, that business secrets are appropriately protected, secret information is handled right, with appropriate and punctual timing of the publication no unauthorized person can access to the information so that misuse of this information can be prevented and market operators, investors and shareholders have the opportunity to be informed about events in connection with the Company in the frame of regulated and announced procedure at the same time.

The Company's publication policy gives priority to present following facts:

- the Company's main aims;
- the Company's policy in connection with its main activity, its business ethics, its partners, competitors and other concerned parties;
- result of the Company's activity, management;
- the risk factors that affect the Company's operation, management and the Company's risk management principles;
- its solvency margin, the amount of capital requirement,
- remuneration policy,
- the Company's managers, their professional experiences and principles for their remuneration;
- company management practice, structure of the company management system;
- ownership structure.

The principles of information publication in connection with the Company, approved by the Board of Directors are published on the official website of the Company. The internal audit examines the compliance of publication procedures.

5.2. The Company's insider trading policy

According to Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse (hereinafter: MAR) the persons having managerial responsibilities within the Company, as issuer, and in certain cases as defined in MAR, the persons closely associated with them shall notify the Company and the Central Bank of Hungary immediately but within no later than three business days after the date of the transaction about transactions conducted on their own account relating to the Company's shares, debt instruments or derivatives or other financial instruments linked thereto (Article 19(1) of MAR). Article 19(7) of MAR and the related implementing regulation define the transaction types with obligation to notify. The obligation to notify transactions applies to all transactions once a total amount of EUR 5,000 has been reached within a calendar year. The threshold shall be calculated adding without netting all above mentioned transactions (Article 19(8) of MAR).

The Company has a list of all persons discharging managerial responsibilities and persons closely associated with them according to Article 19(5) of MAR.

A person discharging managerial responsibilities within the Company shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked to them during a closed period of thirty calendar days before the announcement of an interim financial report or a year-end report.

6. Methods of practicing shareholder rights and presenting the rules in connection with the organisation of the general assembly

6.1. Rules of practicing shareholder rights

The shareholder is entitled to practice his rights in possession of the owner certification defined by the legal regulations on shares and stocks. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. The shareholder needs an entry on the list of shareholders in order to practice his rights in connection with the general assembly.

The shareholder shall practice his rights personally, by a substitute (representative) or by a shareholder substitute defined by the Capital Market Act. Shareholders may also authorise senior employees of the Company to exercise General Meeting related rights. Authorisation for representation is valid for one General Meeting or for the time determined in the authorisation, but for up to twelve (12) months. The validity of authorised representation shall extend to the resumption of adjourned General Meetings and General Meetings reconvened as a result of a lacking quorum. Authorisation shall be issued as a public instrument or private document of full probative force and submitted to the Company at the place and time specified in the General Meeting notice. The authorisation given by the nominee shareholder shall state that the representative acts in the capacity of nominee shareholder.
The shareholder is entitled to a dividend of distributable profits, ordered for distribution by the General Meeting, proportionate to the nominal value of its share. Of after-tax profit distributable among shareholders, the holder of series "B" dividend preference shares has a right to dividend 10% higher than dividend due for series "A" ordinary shares, provided that if the holder of dividend preference shares is not entitled to dividend in a given financial year, lost dividend from profits of previous years may not be supplemented.
If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.

Shareholders have the right to attend the general meeting. Shareholders have a right to information concerning matters on the General Meeting's agenda. Accordingly, upon the shareholder's written request submitted at least eight days before the date of the General Meeting, the Board of Directors shall provide the information necessary for discussing the given item on the agenda of the General Meeting three days before the date of the same. The Board of Directors may bind the exercise of the above right to information to a written non-disclosure declaration

issued by the shareholder requesting information. The Board of Directors may reject the request for information and access to the documents if it would compromise the Company's business, bank, securities or other similar secrets or if the person requesting the information exercises this right in an abusive manner or fails to make a confidentiality statement despite having been instructed thereto. If the person requesting information considers the denial of information to be unreasonable, he/she may request the court of registration to oblige the Company to provide such information. The Company shall allow all shareholders attending the General Meeting to exercise the right to information, commenting and to motion, provided that exercise of such rights does not prevent the regular and proper operation of the General Meeting. To ensure the exercise of shareholder rights defined hereunder, the chairperson of the General Meeting shall give the floor to shareholders at the General Meeting, under condition that the chairperson may limit speaking time, interrupt the speaker, in particular, upon deviation from the topic, and – when several persons are speaking simultaneously – determine the order of speeches to ensure the regular and proper operation of the General Meeting. The Company has five (5) business days available from the date of the General Meeting to answer questions raised at the General Meeting and not answered to the satisfaction of shareholders.
The shareholder has every minority rights ensured by the Civil Code.

6.2. Summary of general assembly organisation regulations

The supreme body of the Company is the general assembly. The Board of Directors has to call the general assembly at least 30 days before the beginning of the general assembly on places of publication determined by the Articles of Association by a published announcement. Shareholders who notified the Company in writing about their claim, need to be informed in electronic form about the calling of the general assembly.

The business integration management organisation and the Integration Organisation shall be notified of the General Meeting concurrently with publication of the invitation.

The key data of the annual and the consolidated annual financial statements of the Company, prepared in accordance with the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board shall be disclosed to the shareholder twenty-one days before the date of the general assembly at the latest.

If the general assembly had been convened improperly, then the general assembly may be held and resolutions may be passed as well, however, exclusively in the presence of all shareholders entitled to vote, provided that they grant their consent to hold the general assembly.

The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the general assembly shall not have a quorum, at least ten and at most twenty-one days after the original date a second general assembly shall have a quorum in cases of the original agenda regardless the number of participants.

The general assembly can be suspended at most once by the chairman. If the general meeting is suspended, then it shall be continued within thirty days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

At the General Meeting, each class "A" ordinary share with a nominal value of HUF 100, i.e. Hundred Hungarian Forints, entitles to one vote; and each class "C" ordinary share with a nominal value of HUF 1,000, i.e. One Thousand Hungarian Forints, entitles to ten votes[3]. The Company like the general assembly performs ownership

[3] Owners of shares of „B" series with dividend priority are not entitled to vote and have no voting rights in the general assembly. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with

compliance determined by the Capital Market Act, stock market regulations and KELER Zrt's regulations which is dated in the period of time between the 7th and 5th stock market days before the general assembly. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the day of ownership compliance and whose name is included in the list of shareholders on the second business day before the beginning day of the general assembly at 18.00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transferring his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

Resolutions of the General Meeting are adopted by simple majority, except for matters requiring a majority vote of votes cast by law. If legislation prescribes a unanimous adoption of resolutions concerning any matter, the General Meeting shall adopt resolutions by unanimous decision on such matter.
The detailed rules on organisation of the general assembly are included in points 3.1-3.1.23 of the Articles of Association.

7. Remuneration Statement

7.1. Remuneration principles for the year 2021

The Remuneration Policy's review was approved by MTB Magyar Takarékszövetkezeti Bank Zrt.'s Supervisory Board by way of Supervisory Board decision No. FB-1/10/2021, by its Board of Directors by way of Board of Directors' decision No. G/1/10/2021, by its Remuneration Committee by way of Remuneration Committee decision No. JavB-1/2/2021 and by its Risk Management Committee by way of Risk Management Committee decision No. KkB-1/2/2021 in March 2021.

The Remuneration Policy entered into force on 31 March 2021 as a direct regulation No. 2/2020 V2, but its provisions are applicable from 1 January 2021 to the entities covered by it.

Considering the Remuneration Policy, that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementation was necessary for the Company. Implementation of the "KM" Annexes to the Remuneration Policy was approved by the Supervisory Board of Takarék Mortgage Bank Co. Plc. by way of decision No. 23/2021. (03.30.).

The essence of the Remuneration Policy can be summarized as follows:

The Remuneration Policy aims to:

- establish a remuneration system in accordance with the medium- and long-term strategy of the Takarék Group,
- that is clear, transparent and can be accurately planned for every employee,
- in compliance with the proportionality principle set forth in Government Decree 131/2011. (VII. 18.),
- Magyar Bankholding Zrt. (hereinafter referred to as "Bankholding") and the Savings Group are supervised on a consolidated basis, and the purpose of this Policy is to meet the requirements of the Bankholding as the group manager with regard to the Remuneration Policy.

Principle of the Remuneration Policy:

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the voting rights that are connected to ordinary shares of „A" series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

The basic principle of the Remuneration Policy is to harmonize the business goals of the members of the Takarék Group and the personal goals of the employees on long term.

It is the fundamental aim of the Takarék Group to encourage its employees to boost performance in addition to performing quality work and also to make employees interested in the long-term, successful and risk-aware operation that observes the interests of the Clients while the remuneration system is applied.

The Remuneration Policy needs to be in accordance with the goals, strategy and environment of the Takarék Group. It should serve to motivate leaders and subordinates, the personal development of colleagues, and it should also support the success of the Takarék Group while keeping in mind the interests of the Clients and the owners. The Remuneration Policy is in accordance with effective and successful risk management, the application of which it facilitates, and it does not encourage risk-taking exceeding risk limits.

The Remuneration Policy's scope of subjects are the following companies:

- MTB Magyar Takarékszövetkezeti Bank Zrt.,
- Takarékbank Zrt.,
- Takarék Mortgage Bank Co. Plc.,
- Direct and indirect investments of MTB collectively that are companies under consolidated supervision and/or the affiliated enterprises of MTB, Takarékbank Zrt and Takarék Mortgage Bank Co. Plc.
- Intermediaries, agents and partially third parties acting on behalf of Takarékbank Zrt and MTB Magyar Takarékszövetkezeti Bank Zrt. based on an agency agreement, taking into consideration the principle of proportionality, not overriding their own remuneration policy.

The personal scope of the Remuneration Policy:

The Remuneration Policy is applicable to all of the employees of the companies under the subjective scope.

The personal scope of the Remuneration Policy shall apply to every senior officer, supervisory board member and salaried employee of Takarék Group as per Section 3:21 of the Civil Code, and, in addition to the general rules, it determines special rules in connection with highlighted persons as per Section 117. paragraph (2) of the Credit Institutions Act, annex 13 of the Collective Investments Act.

The personal scope of the Remuneration Policy shall also apply to every employee of the Takarék Group who do not fall under the special regulations referenced in the previous clause.

The scope of the Remuneration Policy applies to every relevant person performing investment service activities as defined in the Investment Firms Act pursuant to the Decree No. 2017/565 (irrespective of whether they are an employee of the Group or a third party acting on behalf of an organization).

The temporal scope of the Remuneration Policy is indefinite, with the proviso that its provisions should be reviewed annually, or in the event of major changes in the legislation.

Publications regarding remunerations, data disclosure to the Central Bank of Hungary

The Remuneration Policy of the Integration Bank Group shall be available to all employees of the Member Bank. Member Bank shall be responsible for the publication thereof on its own electronic platform (Intranet) or any other platform customarily used by Member Bank.

The Group publishes its Remuneration Policy annually, and shall perform the data disclosure of the Central Bank of Hungary regarding basic- and performance-based remunerations in line with said Remuneration Policy, as per the processes and task allocations set forth by the Group's Publication Policy and the Integration's Data Disclosure Policy. Based on the above internal policies, Member Bank shall disclose data to the lead Member Bank and shall ensure that such data are true and correct.

Laying down the principles of Remuneration Policy

The duties of the Supervisory Board:

The Supervisory Board is responsible for adopting and regularly reviewing the Remuneration Policy and for monitoring and reviewing the implementation of the Remuneration Policy.
It approves the significant exceptions to the approved Remuneration Policy or the modifications of the approved Remuneration Policy, and carefully weighs up and monitors the effects thereof.
Performance assessment criteria used by the Compliance Department shall be approved by the Supervisory Board in line with the principles laid down in the Remuneration Policy.
It shall approve the policy relating to the identification process as part of the Remuneration Policy, it participates in designing the identification process, and furthermore, it constantly monitors the process. It shall conduct a periodic review of the approved policy and modifies it when necessary.
The remuneration of members of governing bodies (Board of Directors) with a managerial authority shall be determined by the body having supervisory authority, the Supervisory Board, the owner or the General Assembly. Members of governing bodies with a managerial authority (Board of Directors) cannot decide about their own remuneration, decision is made by the Supervisory Board on the recommendation of the Remuneration Committee (if one has been created).
On the basis of a proposal from the Remuneration Committee, the Supervisory Board decides on the remuneration of the managers performing the independent control function. In the case of Group Members that are not credit institutions and where an arbitral Supervisory Board operates, the tasks that generally fall within the competence of the Supervisory Board shall be delegated to the General Assembly.

Duty of the Board of Directors:

The Board of Directors of a Member of the Takarék Group shall be responsible for acknowledging and publishing the Remuneration Policy and shall be responsible for its implementation.

Review of the Remuneration Policy

The Group Remuneration Policy shall be reviewed annually, and it shall be issued as a policy with direct effect. Involvement of MTB Zrt.'s HR and controlling officers in laying down the principles of and implementing and reviewing the Remuneration Policy under the coordination of the MTB Zrt. Staff shall be ensured by the annual review process, wherein they comment the rules and processes of remuneration, and the Priority Persons. Experts from the organizations falling under the scope of the Remuneration Policy may also be invited to comment.

Within the review process of the Remuneration Policy, the Compliance Directorate shall annually analyse the impacts of the Remuneration Policy on the institute's compliance with the legislation, policies, internal policies and the corporate risk culture. Furthermore, as part of a proposal for the approval of the Remuneration Policy, it shall report any identified compliance risks and deviations from the requirements to members of the management- and supervisory boards (MTB Board of Directors and MTB Supervisory Board).

In the Takarék Group, the compliance check of the implementation of the Remuneration Policy shall be coordinated by the Integration Organization. The internal compliance check shall be conducted annually, also at the level of each institution. This was carried out in 2021 as well.

The compliance officer's report on the compliance check shall be discussed by the Member Bank's Board of Directors, Supervisory Board, Audit Committee, in case it works: Remuneration Committee and Risk Committee, and if necessary, they present their suggestions to amend the Remuneration Policy.

MTB Zrt.'s control function areas shall verify and review the compliance of the Remuneration Policy with the policies, strategies, regulations, procedures and internal rules, the fulfilment of central or group-level provisions.

By issuing the regulations on the Remuneration Policy, MTB Zrt. shall ensure and require that the remuneration policies of the Group as a whole and of each member are consistent and harmonized, including identification processes and adequate implementation on a consolidated and individual basis.

7.2. Remuneration Statement for the Year 2021

1/ Members of the Management

The remuneration of the members of the management is governed by the provisions of the Remuneration Policy issued by MTB Zrt. as a direct regulation No. 2/2020 V2, which entered into force on 31 March 2021 and are applicable from 1 January 2021.

2/ Officers

The extraordinary general assembly of the Company held on 23 November 2021 resolved in its resolution No. 11/2021 (11.23.) that the remuneration of the Chairman of the Board of Directors shall remain HUF 400,000 gross per month, and that of the members of the Board of Directors shall remain HUF 200,000 gross per month, with effect from 1 December 2021. In its Resolution No. 17/2021 (11.23.), the general assembly determined that the remuneration of the Chairman of the Supervisory Board shall remain HUF 318,000 gross per month, and the remuneration of the members of the Supervisory Board shall remain HUF 212,000 gross per month, with effect from 1 December 2021.

Statement of Responsible Corporate Governance on Compliance with the Recommendations on Responsible Corporate Governance

As part of the Responsible Corporate Governance Report of Takarék Mortgage Bank Co. Plc. (registered seat: H-1117 Budapest, Magyar Tudósok körútja 9. Infopark G épület.; company registration number: 01-10-043638; hereinafter: „the Company") represents by submission of the following questionnaire on the extent the Company applied the recommendations set out in the specific points of the Responsible Corporate Governance Suggestions issued by Budapesti Értéktőzsde Zrt. (Budapest Stock Exchange).

Level of compliance with the Suggestions

The Company shall indicate whether or not it applies the given recommendation. For negative answers, the Company shall provide information about the reasons the recommendation is not followed.

1.1.1. Within the Company, an organizational unit engaged in investors' account management is operating or an individual is appointed to maintain relations with investors.

Yes No
Explanation:

1.1.2. The Company's articles of association is available on the Company's website.
Yes No
Explanation:

1.1.4. If the Company's articles of association allows shareholders to exercise their rights while absent, the Company has published the methods and conditions of the same on its website, including the necessary documents.
Yes No
Explanation:

1.2.1. The Company has published a summarizing documents on its website regarding the rules of conduct of general assemblies and exercising shareholders' rights.
Yes No
Explanation: The Company provides the details of the rules of conducting general assemblies and exercising shareholders' rights in the information bulletin about the convention of the general assembly, which bulletin is always published on its website.

1.2.2. The Company published the day of establishment of the scope of individuals entitled to participate in the given Company event (cut-off date) by indicating the exact date. Furthermore, the Company published the date of the last day of trading of shares entitling invitees to participate in the Company event.
Yes No
Explanation:

1.2.3. The Company convened its general assembly in a way that allowed for the participation of the largest number of shareholders possible.
Yes No
Explanation:

1.2.6. The Company did not hinder shareholders to send separate representatives for each safekeeping account regarding any general assembly.
Yes No
Explanation:

1.2.7. For proposals regarding each agenda item, in addition to the decision proposed by the Board of Directors, the opinion of the Supervisory Board was also available for shareholders.
Yes No
Explanation:

1.3.3. The Company did not hinder participant shareholders' rights to receive information, to make comments or motions, and the Company did not condition these to any circumstance or requirement, except for measures taken for the due and intended conduct of the general assembly.
Yes No
Explanation:

1.3.4. The Company ensured compliance with the principles of notification and publication under the stock exchange rules by answering questions arising at the general assembly.
Yes No

Explanation:

1.3.5. The Company published on its website the answers to questions arising at the general assembly that could not be adequately answered by the representatives of the Company's bodies or the auditors present at the meeting within three business days, or published its notification regarding the reasons of abstention from answering.
<u>Yes</u> No
Explanation: In 2021, no such questions arose.

1.3.7. The Chairman of the general assembly ordered a recess or proposed suspension of the general assembly, if, regarding the agenda items, new motions or proposals were received, so that shareholders did not have opportunity to familiarize with such motions or proposals in advance.
<u>Yes</u> No
Explanation: In 2021, no such motions or proposals were submitted.

1.3.8.1. The Chairman of the general assembly did not apply joint voting procedures for decisions in connection with appointing or recalling members of the Supervisory Board.
<u>Yes</u> No
Explanation:

1.3.8.2. For members of the Supervisory Board appointed by shareholders' support, the Company provided information regarding the person of the supporting shareholder(s).
<u>Yes</u> No
Explanation:

1.3.9. Prior to discussing agenda items regarding the amendment of the articles of association, the general assembly adopted a separate decision whether the meeting intends to decide regarding each clause of the articles of association separately or by joint decisions, grouping the cases by certain criteria.
Yes <u>No</u>
Explanation: The general meeting always decides about amendments of the articles of association in a joint decision, irrespective of the number of clauses the amendment will affect. The proposal associated with the agenda item details the clauses affected by the amendment and the content of the amendment.

1.3.10. The Company published the Minutes of the general assembly containing the decisions, the details of the decision proposals and/or any significant questions and answers regarding such proposals within 30 days of the general assembly.
<u>Yes</u> No
Explanation:

1.6.1.1. The Company's publication guidelines cover possible electronic- and online publication procedures.
<u>Yes</u> No
Explanation:

1.6.1.2. The Company sets up its website by considering the criteria of publication and information of shareholders.
<u>Yes</u> No
Explanation:

1.6.2.1. The Company has an internal set of rules covering publications and handling information under Clause 1.6.2 of the Recommendations.
<u>Yes</u> No
Explanation:

1.6.2.2. The Company's internal rules also cover the classification of significant incidents in terms of publications.
Yes **No**
Explanation:

1.6.2.3. The Directorate/Board of Directors assessed the efficiency of publication processes.
Yes **No**
Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.2.4. The Company published the result of the review of the publication processes.
Yes **No**
Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.3. The company published its corporate events calendar.
Yes **No**
Explanation:

1.6.4. The public was informed about the company's corporate strategy, its business ethics and its policies regarding other stakeholders.
Yes **No**
Explanation:

1.6.5. In the annual report or on the website the company has disclosed information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.
Yes **No**
Explanation:

1.6.6. The company has published the appropriate information on the work of the members of the Managing Body, the Supervisory Board and the executive management, the evaluation of the said work and the changes of the current year.
Yes **No**
Explanation:

1.6.8. The company disclosed its risk management guidelines, and provided information on the system of internal audits, as well as information about major risks and relevant management principles.
Yes **No**
Explanation:

1.6.9.1. The company disclosed its guidelines governing insiders' trading in the company's securities.
Yes **No**
Explanation:

1.6.9.2. The company published in the annual report or otherwise ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.
Yes **No**
Explanation:

1.6.10. The company disclosed any relationship between members of the Managing Body, the Supervisory Board and the executive management with a third party, which might have an influence on the operations of the company.
Yes No
Explanation: In 2021, no such case occurred.

2.1.1. The company's articles of association contains unambiguous provisions regarding the duties and competences of the General Meeting and the Board of Directors.
Yes No
Explanation:

2.2.1. The Managing Body regulates the rules of procedure defining all procedures and protocols for the preparation and holding of meetings and the tasks relevant to adopted resolutions, as well as other matters related to the operation of the Managing Body.
Yes No
Explanation:

2.2.2. The company disclosed the procedure for nominating members of the Managing Body and the remuneration principles.
Yes No
Explanation:

2.3.1. The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation, competence and duties, as well as the administrative procedures and processes which the Supervisory Board follows.
Yes No
Explanation:

2.4.1.1. The Managing Body and the Supervisory Board held meetings regularly, at times designated in advance.
Yes No
Explanation:

2.4.1.2. The rules of procedure of the Managing Body and the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.
Yes No
Explanation:

2.4.2.1. Board members had access to the proposals of a given meeting at least five business days prior to the board meeting.
Yes No
Explanation:

2.4.2.2. The company ensured the orderly course of meetings and that minutes were recorded of the meetings, and the orderly management of the documentation and resolutions of the Managing Body and the Supervisory Board.
Yes No
Explanation:

2.4.3. The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.
Yes No

Explanation:

2.5.1. The nomination and election of the members of the Managing Body and the Supervisory Board took place in a transparent way, information on candidates was made public in due time prior to the General Meeting.
<u>Yes</u> No
Explanation:

2.5.2. The composition of boards and the number of members complies with the principles specified in point 2.5.2 of the Recommendations.
<u>Yes</u> No
Explanation:

2.5.3. The company ensured that newly elected board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members.
<u>Yes</u> No
Explanation:

2.6.1. At regular intervals (in connection with the preparation of the CG Report) the Board of Directors/Supervisory Board requested a confirmation of their independent status from those members considered independent.
<u>Yes</u> No
Explanation:

2.6.2. The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the management's work.
<u>Yes</u> No
Explanation:

2.6.3. The company disclosed on its website the guidelines on the independence of the Board of Directors/Supervisory Board, as well as the criteria applied for assessing independence.
Yes <u>No</u>
Explanation: The company has not disclosed a single document on the independence of the members of the Board of Directors and the Supervisory Board, but the rules of procedures of both the Board of Directors and the Supervisory Board includes the conflict-of-interest and the independence criteria in connection to its members. Both rules of procedures are disclosed on the website of the company

2.6.4. The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the five years prior to his nomination, not including the cases providing for employee involvement.
<u>Yes</u> No
Explanation:

2.7.1. Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a business or personal relationship to them) had such a significant personal stake relevant to a transaction of the company (or the company's subsidiary) that would make them not independent.
<u>Yes</u> No
Explanation:

2.7.2. Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted and approved according to general rules of practice of the company, but with stricter transparency rules in place.

Yes **No**
Explanation:

2.7.3. Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.
Yes **No**
Explanation:

2.7.4. The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitors compliance with those guidelines.
Yes **No**
Explanation:

2.8.1. The company created an independent Internal Audit function which reports to the Audit Committee/Supervisory Board.
Yes **No**
Explanation:

2.8.2. The Internal Audit has unlimited access to all information and documents necessary for the inspections.
Yes **No**
Explanation:

2.8.3. Shareholders were informed of the operation of the Internal Safeguards' system.
Yes **No**
Explanation:

2.8.4. The company has a compliance function.
Yes **No**
Explanation:

2.8.5.1. The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.
Yes **No**
Explanation:

2.8.5.2. The appropriate body of the company and the General Meeting received information on the efficiency of risk management procedures.
Yes **No**
Explanation:

2.8.6. The Managing Body developed the risk management policy appropriate for the industrial and corporate peculiarities with the cooperation of the relevant fields.
Yes **No**
Explanation:

2.8.7. The Managing Body formulated the principles regarding the system of internal audits ensuring the management and control of risks relevant to the company's business activities, as well as achieving the performance and profit goals set by the company.
Yes **No**
Explanation:

2.8.8. Functions of the internal audit systems have reported at least once to the eligible body on the operation of internal audit mechanisms and corporate governance functions.
Yes **No**
Explanation:

2.9.2. The Managing Body invited the company's auditor to participate in the meetings debating the financial report with consultative powers.
Yes **No**
Explanation:

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No).

1.1.3. The company's articles of association render possible that the shareholder practise his right to vote even when absent.
Yes **No**
Explanation:

1.2.4. The company has set the time and place of General Meetings proposed by shareholders with consideration to the shareholders' proposal.
Yes **No**
Explanation: There was no Shareholders' Meeting initiated by shareholders in 2021.

1.2.5. The voting procedures applied by the company ensure the unambiguous, clear and fast declaration of the results, and in case of electronic vote, the validity and reliability of it.
Yes **No**
Explanation:

1.3.1.1. The Managing Body and the Supervisory Board were represented at the General Meeting.
Yes **No**
Explanation:

1.3.1.2. The chairman of the General Meeting provided adequate information on the possible absence of the Management Body or the Supervisory Board before discussing the agenda in detail.
Yes **No**
Explanation:

1.3.2.1. The company' articles of association do not prevent that at the initiation of the chairman of the Managing Body of the company, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda, if they assume that the presence and contribution of the given party is necessary, or it facilitates the information of shareholders, the decision-making process of the general meetings.
Yes **No**
Explanation:

1.3.2.2. The company' articles of association do not prevent that at the initiation of the company's shareholders requesting the amendment of the agenda, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda.
Yes **No**
Explanation:

1.3.6. The company's Annual Report complying with the Accounting Act includes a short, straightforward and illustrative summary for the shareholders, containing the important information relevant to the annual operation of the company.
Yes **No**
Explanation:

1.4.1. According to point 1.4.1., the dividend was paid within 10 business days to those shareholders who had provided all the necessary information and documentation.

Yes **No**

Explanation: The Company did not pay dividends in 2021.

1.6.11. In compliance with the provisions of point 1.6.11, the company also prepared and released its disclosures in English.

Yes **No**

Explanation:

1.6.12. The company informed its investors regularly, but at least on a quarterly basis, on its operations, financial situation and the assets and liabilities of the company.

Yes **No**

Explanation: In compliance with the provisions of the Credit Institutions Act, the company releases semi-annual reports.

2.9.1. The company regulates the internal procedures to be followed when employing an external advisor or an outsourced service of theirs.

Yes **No**

Explanation:

PROPOSAL
FOR AGENDA ITEM NO. 5

●

GRANTING AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE TREASURY SHARES

Proposal:

The Board of Directors of Takarék Mortgage Bank Co. Plc. (the "Company"), acting on behalf of the annual General Meeting, authorized the Board of Directors by Act No. 38/2021. (04.27.)_of 27 April 2021 to acquire the Company's treasury shares pursuant to pursuant to Section 3: 223 (1) of Act V of 2013 of the Civil Code. This authorization is valid for 18 months.

The acquisition of the Company's treasury shares is recommended in the subsequent period to maintain the stability of the share price and the planned implementation of the Company's business strategy.

On this basis, we propose that the Board of Directors, acting on behalf the General Meeting, shall provide repeated authorization to the Board of Directors to acquire treasury shares for a period of 18 months by issuing a Decision, considering the type, class, number, nominal value of the shares to be acquired and the minimum and maximum amount of the consideration determined in the proposed Decision, pursuant to Section 3: 223 (1) of Act V of 2013 of the Civil Code.

The Board of Supervisors agrees with the proposal of the Board of Directors.

Proposed resolution:

The Board of Directors of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (the "Company"), acting on behalf of the annual General Meeting, authorizes the Board of Directors to acquire the Company's treasury shares pursuant to Section 3: 223 (1) of Act V of 2013 of the Civil Code, with the following conditions.

1. ***Type, nominal value and amount of own shares to be acquired:***
   - ***Series "A" ordinary shares with a nominal value of HUF 100,***
   - ***Series "B" priority share with a nominal value of HUF 100,***
   - ***Series "C" ordinary shares with a nominal value of HUF 1,000,***

but up to 25% of the total nominal value of the share capital at the time.

2. ***The purpose of acquiring treasury shares is:***
   - ***to maintain the stability of the share price and the planned implementation of the Company's business strategy.***

3. ***The way of acquiring treasury shares is:***
   - ***on an exchange or in an over-the-counter market, onerously.***

4. ***The minimum and maximum amount of consideration that can be paid for one treasury share:***
   - ***in the case of Series "A" and "B" shares, the lowest purchase price is HUF 1, i.e. one Forint, and the highest purchase price is 125% of the volume weighted average stock exchange price of one Series "A" share before the trade date;***
   - ***in the case of Series "C" share, the lowest purchase price is HUF 1, i.e. one Forint, and the highest purchase price is 1250% of the volume weighted average stock exchange price of one Series "A" share before the trade date.***

5. ***This authorization is valid for 18 months from the date of this Decision.***

6. ***Regarding other conditions for the acquisition of own shares, the relevant provisions of the Civil Code shall apply.***

PROPOSAL
TO AGENDA ITEM NO. 6.

●

APPROVAL OF THE SUPERVISORY BOARD'S AMENDED RULES OF PROCEDURE

Proposal:

Pursuant to paragraph 3:122(3) of Act V of 2013 on the Civil Code (“Civil Code”) and clause 3.1.17 (n) of the Statutes, amendment of the rules of procedure (hereinafter “Rules of Procedure”) of the Supervisory Board of Takarék Jelzálogbank Nyrt. (hereinafter “Company”) falls within the exclusive competence of the General Meeting.

The Company, at its extraordinary general meeting held on 31 March 2022, amended the Company Statutes with its resolution no. 5/2022. (03.31.). The Statutes consolidated with amendments shall take effect as of 29 April 2022. Amendments of the Statutes affects the rules of procedure of the Supervisory Board, having regard to which the amendment of the rules of procedure has become necessary.

The Supervisory Board adopted its Rules of Procedure consolidated with the amendments by way of Resolution No. 12/2022. (04.05), with the proviso that they shall enter into force simultaneously with the Statutes amended by the General Meeting on 31 March 2022. In view of the above, the Board of Directors proposes that the General Meeting approve the Supervisory Board’s Rules of Procedure consolidated with the amendments.

PROPOSED RESOLUTION

The General Meeting approves the Rules of Procedure of the Supervisory Board, consolidated with the amendments set out in the Annex to the General Meeting's proposal. The amended Rules of Procedure shall enter into force on the 29 of April 2022.

RULES OF PROCEDURE OF THE SUPERVISORY BOARD OF TAKARÉK MORTGAGE BANK CO. PLC.

These Rules of Procedure ("**Rules of Procedure**") of the supervisory board ("**Supervisory Board**") of **Takarék Mortgage Bank Co. Plc.** (registered office: H-1117 Budapest, Magyar Tudósok körútja 9. G. ép.) ("**Company**") were adopted by the Supervisory Board by way of Supervisory Board Decision No. 12/2022 (04.05.), approved by the supreme body of the Company by way of Resolution No. ___/2021 (__. __.).

1. ORGANISATION OF THE SUPERVISORY BOARD

1.1 The Supervisory Board supervises the Company's management to protect the interests of the Company. The authority, functions, rules of operation of the Supervisory Board are determined by Act V of 2013 on the Civil Code (**"Civil Code**"), Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (**"Credit Institutions Act"**), the statutes of the Company (**"Statutes"**) and relevant legislation. Under authority granted by the Civil Code and the Statutes, the Supervisory Board determines its own Rules of Procedure, subject to approval by the Company's General Meeting (**"General Meeting"**).

1.2 The Supervisory Board consists of at least three (3) and up to nine (9) natural person members (**"Supervisory Board Member"**). The chairperson of the Supervisory Board (**"Chairperson"**) is elected by the supreme body of the Company. The Supervisory Board may elect a vice-chairperson (**"Vice-Chairperson"**) from among its members by a resolution passed by a simple majority of all members.

1.3 The General Meeting elects members of the Supervisory Board for a fixed period of up to five (5) years. Members of the Supervisory Board may not be employed by the Company, except for persons acting as employee representatives.

1.4 If conditions for employee participation regulated by the Civil Code exist, one third of the members of the Supervisory Board consists of employee representatives appointed by the works council, in consideration of the opinion of trade unions operating at the Company. The General Meeting is required to elect employees nominated by the works council as members of the Supervisory Board, unless nominees are subject to statutory grounds for exclusion. If no nomination is made, the place of employee delegates may not be filled. The rights and obligations of employee delegates are identical to those of other Supervisory Board members.

1.5 Membership in the Supervisory Board – without conclusion of a relevant agency contract – shall be established by signing of the declaration of acceptance. Rules of the agency contract shall be appropriately applicable to the legal relationship of Supervisory Board membership. Members may be re-elected and dismissed at any time, without justification by the General Meeting, in accordance with the provisions of the Statutes. If appointed, the General Meeting shall dismiss employee delegate(s) upon proposal of the works council.

1.6 Election of the members and chairperson of the Supervisory Board is subject to approval by the National Bank of Hungary. Supervisory Board Members are elected and dismissed in accordance with legal requirements and rules of the Statutes.

1.7 The Supervisory Board Member shall notify the Supervisory Board without delay if he/she is or will be subject to any grounds for exclusion, restriction or conflict of interest under the Civil Code or the Credit Institutions Act. To determine conflict of interest, Supervisory Board Members shall inform the Supervisory Board of all of their legal relationships resulting in conflict of interest. The person elected as Supervisory Board Member shall inform in writing business associations at which he/she is already member of a supervisory board within 15 (fifteen) days from acceptance of the appointment. If a person fills the position of executive officer or supervisory board member at another business association while being member of the Company's Supervisory Board, he/she shall notify the Chairperson of such fact within 15 (fifteen) days from acceptance of such appointment, even if the business association concerned is member **of the MKB Bank Group.** If the Chairperson determines a conflict of interest in relation to such positions, he/she shall call on the member concerned without delay to remedy it. If the member concerned fails to satisfy such request within 30 (thirty) days, the Chairperson shall notify the Board of Directors of this.

1.8 The independent members of the Supervisory Board shall inform the Board of Directors and the Supervisory Board if they are no longer deemed independent under Section 3:287 of the Civil Code.

1.9 Supervisory Board Members shall take part in the work of the Supervisory Board in person.

1.10 Membership in the Supervisory Board shall terminated upon:

a) expiry of the term of office;
b) dismissal;
c) issue of a statement on resignation addressed to the chairperson or member of the Board of Directors;
d) grounds for exclusion or conflict of interest regulated by law, or in other cases stipulated by law;
e) death of the member of the Supervisory Board.

1.11 Supervisory Board membership of the employee delegate shall also terminate upon termination of his/her employment.

1.12 The Supervisory Board Member may resign from office at any time by a statement issued to the chairperson or member of the Board of Directors. If necessitated for the proper functioning of the Company, particularly if as a result of resignation, the actual number of Supervisory Board Members would fall below 3 (three), the resignation shall take effect upon election of a new Supervisory Board Member, otherwise on the sixtieth (60^{th}) day from notification thereof, at the latest. Until the resignation takes effect, the Supervisory Board Member shall take part in urgent decision-making and the implementation of urgent measures.

2. FUNCTIONS AND AUTHORITY OF THE SUPERVISORY BOARD

2.1 To protect the interests of the Company, the Supervisory Board shall supervise the Company's activity, and may request information and data concerning the matters and operation of the Company. As part of supervising management, the Supervisory Board may request reports and information from Board members and senior employees of the Company. Such reports and information shall be sent to the chairperson of the Supervisory Board in writing within thirty

(30) business days from receipt of the relevant written request.

2.2 The Supervisory Board has the right to decide matters referred under its authority by the Civil Code, Credit Institutions Act or the Statutes.

3. MEETINGS, RESOLUTIONS OF THE SUPERVISORY BOARD

3.1 The Supervisory Board shall determine its own Rules of Procedure. The validity and effect of the Rules of Procedure is subject to approval by the General Meeting. The Supervisory Board shall forward its Rules of Procedure to the Integration Organisation within 15 days from their approval by the General Meeting; the former may request the amendment thereof if required by law. Within 15 days from receipt of such request of the Integration Organisation, the Supervisory Board shall amend its Rules of Procedure in conformity with contents included in the request and submit the same to the General Meeting for approval.

3.2 Meetings of the Supervisory Board (**"Meeting"**) shall be convened and chaired by the Chairperson. The Supervisory Board shall meet whenever necessary for smooth fulfilment of its duties, but at least on a quarterly basis. Any Supervisory Board Member, the Board of Directors or the permanent auditor may request in writing the Chairperson to convene the Meeting, with indication of the reason and purpose. Within 8 (eight) days from receipt of such request, the Chairperson shall provide for convening of the Meeting, where the date thereof shall fall within the period of 30 (thirty) days from receipt. If the Chairperson fails duly satisfy such request, the requesting Supervisory Board Member may convene the Meeting.

~~3.3~~ The Meeting shall be convened in writing (by courier/post or e-mail). The Meeting shall be convened by sending of the invitation, where at least 8 (eight) days shall pass between the sending thereof and the held Meeting. The invitation shall indicate the place and time of the Meeting, and the scheduled agenda items. Documents relating to the agenda items shall be sent to the Supervisory Board Members by the Chairperson, or by the Supervisory Board Member convening the Meeting pursuant to clause 3.2, at the same time as the invitation is sent.

3.4 The Supervisory Board shall notify the Integration Organisation and MTB Zrt. ("Business Integration Management Organisation") of its Meeting at the same time as the invitation is sent. The invitation shall indicate the agenda of the Meeting. Proposals relating to the agenda and related materials, if any, shall be attached to the invitation. Where necessary, the Integration Organisation may call on the Company to draw up written proposals relating to items on the agenda specified by the Integration Organisation within 3 (three) business days from notification. If the Integration Organisation or the Business Integration Management Organisation prepares a written opinion relating to the proposed resolution or the justification thereof, the Supervisory Board Members shall be informed thereon to ensure that they are aware of the opinion of the Integration Organisation or Business Integration Management Organisation when casting their vote

3.5 Before the start of discussions, the Chairperson verifies the quorum of the Meeting. The Supervisory Board has a quorum if two thirds, but at least 3 (three) Supervisory Board Members attend the Meeting.

3.6 The Supervisory Board Member may also attend the Meeting by conference call or other means communication; his/her such presence is deemed to be attendance in person and is entitled to vote. The Supervisory Board Member shall deliver his/her vote cast by conference call or other means of communication to the Supervisory Board, to the registered office of the Company within 5 (five) business days in a private document of full probative force. The Chairperson has the right to additionally extend the deadline by up to 3 (three) business days. Failure to meet the deadline shall be deemed as if the Supervisory Board Member had not attended the Supervisory Board Meeting. In the invitation, the attention of Supervisory Board Members shall draw to the option of attending the Meeting by conference call or other means of communication, informing them of the technical details of attending the Meeting in such manner.

3.7 Resolutions may be passed only in relation to matters included on the agenda in the invitation sent to Supervisory Board Members. Failing the above, a resolution may be passed only in relation to matters to which all attending Supervisory Board Members consented to for discussion.

3.8 The adoption of the Supervisory Board resolution requires that the majority of Supervisory Board Members attending the Meeting vote in favour of it.

3.9 Each Supervisory Board Member may cast one vote. The Chairperson shall put each proposal relating to the individual agenda items to vote and determine after each vote the level of approval or rejection of the proposed resolution, and the main reasons of rejection, if available. Resolutions are adopted by open ballot, but upon the request of any member, the Chairperson shall order a secret ballot. If employees attend the Meeting on a mandatory basis, the single opinion of the employee delegates varies from the majority opinion of the Supervisory Board, the minority opinion of employee delegates shall be presented to the General Meeting.

3.10 Minutes shall be drawn up on the Meeting by the registrar elected by the Supervisory Board Members in attendance. The minutes of the Meeting shall be drawn up in writing, which shall include its place and time, names of attendees, items on the agenda, adopted resolutions, possible minority or separate opinions, possible objections to decisions, and the opinion of persons voting against, voiced proposals and comments, and the opinion of the Integration Organisation and Business Integration Management Organisation. The Supervisory Board Member may request that his/her opinion be recorded word-for-word in the minutes.

3.11 The minutes shall be signed by

3.11.1 the Chairperson, the Vice-Chairperson in the event of his/her unavailability, otherwise by the Supervisory Board Member designated by the Chairperson to substitute him/her;

3.11.2 the registrar; and

3.11.3 two Supervisory Board Members attending the Meeting (if the registrar is a Supervisory Board Member,

one other member).

3.12 In addition to the Supervisory Board Members, the Meeting may be attended by representatives of the Integration Organisation and Business Integration Management Organisation, the CEO and deputy-CEOs of the Company, and persons invited by the Chairperson in the capacity of expert or for other reasons in an advisory capacity. The auditor of the Company may also attend the Meeting in an advisory capacity. The Supervisory Board shall include on the agenda matters proposed by the permanent auditor for discussion.

3.13 Resolutions of the Supervisory Board may also be adopted without holding a Meeting (**"Written Adoption of Resolutions"**).

3.14 The Chairperson, the Vice-Chairperson in the event of his/her unavailability, otherwise by the member designated by the Chairperson to substitute him/her, decides on the Written Adoption of Resolutions. For Written Adoption of Resolutions, the person requesting the Written Adoption of Resolutions shall draft the proposed resolutions and the text of the reasoning and send these together with the voting slips by post or electronic mail to the Supervisory Board Members, and the Integration Organisation and Business Integration Management Organisation. If the Integration Organisation or the Business Integration Management Organisation prepares a written opinion relating to the proposed resolution or the justification thereof, it shall be delivered to the Supervisory Board Members with short notice to ensure that they are aware of the opinion of the Integration Organisation or Business Integration Management Organisation when casting their vote.

3.15 For the Written Adoption of Resolutions, provisions relating to the quorum and voting are applicable, except that the resolution procedure is successful if at least as many votes are sent to the Chairperson as many Supervisory Board Members with voting rights would be required to attend the Meeting for a quorum.

3.16 The voting deadline is 5 (five) business days from receipt of the proposed resolutions, by which time the Supervisory Board Member shall deliver his/her vote in the form of a private document of full probative force to the Supervisory Board at the registered office of the Company. The Chairperson has the right to additionally extend the deadline by up to 3 (three) business days. Failure to meet the deadline shall be deemed as if the Supervisory Board member had not attended the Supervisory Board meeting.

3.17 Within 3 (three) days from the deadline – or within 3 (three) days from the date of receipt of the last vote, if all votes are received before the deadline – the Chairperson shall determine the result of the vote and notify Supervisory Board Members of the result in the minutes drawn up on the result of the vote within an additional 3 (three) days. The date of the resolution is the last day of the voting deadline, or if all votes are received earlier, the day when the last vote is received. The Chairperson shall send the minutes to the Integration Organisation and Business Integration Management Organisation within 15 (fifteen) days from receipt of the last vote.

4. OPERATION OF THE SUPERVISORY BOARD

4.1 The Supervisory Board shall exercise its rights and perform duties as a body, but the Supervisory Board may also appoint independently acting Supervisory Board Members by way of its resolution in relation to individual case groups, subject to regular notification of the Supervisory Board. The division of certain supervisory duties is without prejudice to the responsibility of Supervisory Board Members, or to their right to extend supervision to other activity falling within the scope of the Supervisory Board's supervisory functions. Supervisory Board Members also have the right to independently exercise rights referred to in clauses 2.1-2.2.

4.2 If the Chairperson is unavailable, he/she may be substituted by the Vice-Chairperson, otherwise or in case of his/her unavailability a member appointed by the Chairperson, otherwise any Supervisory Board Member to perform his/her duties defined by law and the Rules of Procedure hereunder.

4.3 Within ten (10) days from the Meeting, the Chairperson shall send to the National Bank of Hungary minutes, proposals and reports relating to agenda items discussed by the Supervisory Board, which concern a serious breach of the financial institution's internal policies or serious irregularities in management.

5. RIGHTS AND OBLIGATIONS OF THE SUPERVISORY BOARD MEMBERS

5.1 Supervisory Board Members are independent of the Company's Board of Directors, they may not be instructed.

5.2 In the course of carrying out supervisory activity, the Supervisory Board Members shall be liable to the Company for damages in accordance with rules of contractual liability. Supervisory Board Members assume joint and several liability. If damage is attributable to the Supervisory Board's resolution, the Supervisory Board Member not involved in or voting against the decision shall be exempted from liability.

5.3 Supervisory Board Members shall keep confidential any information they obtain in relation to the Company in the course of carrying out their activity as a business secret (and as any other secret defined by law).

5.4 The Supervisory Board Member shall comply with legal requirements relating to the prohibition of insider trading, may not use or disclose or make accessible to unauthorised persons information he/she obtains while being in office, relating to the operation and customers of the Company. The Supervisory Board Member shall comply with requirements set out in separate policies on the prohibition of insider trading and notification related thereto.

5.5 The Supervisory Board Member shall notify the National Bank of Hungary without delay, if

5.5.1 he/she is elected a member of the board of directors, supervisory board, managing director or executive officer of a financial institution operating as a branch, or his/her appointment to such post is terminated;

5.5.2 he/she acquires a qualifying holding in an undertaking, or such holding ceases;

5.5.3 criminal proceedings under Section 137(6) of the Credit Institutions Act are launched against him/her;

5.5.4 there is a risk that the Company is unable to meet its obligations arising from financial, auxiliary financial services, or comply with requirements of the Credit Institutions Act, legal regulations enacted under authority of such act, other legislation relating to its activity, and foreign exchange related legislation;

5.5.5 the Company is unable to meet its payment obligations; or

5.5.6 there is cause for the revocation of the Company's establishment or activity licence under the Credit Institutions Act.

5.6 Supervisory Board Members have the right and obligation to

5.6.1 take part in the work of the Supervisory Board and to actively promote in person its successful operation;

5.6.2 attend the Meetings of the Supervisory Board, put forward proposals and comments on matters on the agenda, and if they disagree with any proposal or a part thereof, and maintain their disapproval after the debate, to request that it be recorded in the minutes of the Meeting.

5.7 Supervisory Board Members are entitled to remuneration determined by the General Meeting.

6. MISCELLANEOUS

6.1 The Rules of Procedure hereunder shall take effect upon their approval by the General Meeting, after approval by the Supervisory Board.

6.2 Provisions of the Civil Code, Credit Institutions Act, other legislation and the Statutes shall apply to matters not regulated hereunder.

Budapest, ... 2021

Chairperson of the Supervisory Board

PROPOSAL
TO AGENDA ITEM NO. 10.

●

DETERMINING THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

Proposal:

According to section 3.1.17 subsections (h) and (m) of the new Statutes of Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (hereinafter as "Company"), the General Meeting has exclusive competence to elect and dismiss the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board and to determine their remuneration.

The Board of Directors of the Company recommends that the General Meeting determine the remuneration of the Chairman and the members of the Board of Directors and of the Supervisory Board from 1st of May 2022 as follows:

Chairman of the Board of Directors: gross HUF 1,500,000 / month
Members of the Board of Directors: gross HUF 1,000,000 / month

Chairman of the Supervisory Board: gross HUF 1,000,000 / month
Members of the Supervisory Board: gross HUF 800,000 / month

The Board of Supervisors concurs with the proposal of the Board of Directors.

PROPOSED RESOLUTION

The General Meeting determined the remuneration of the Chairman of the Board of Directors HUF 1,500,000 gross per month, and the remuneration of the members of the Board of Directors HUF 1,000,000 gross per month.

The General Meeting determined the remuneration of the Chairman of the Supervisory Board HUF 1,000,000 gross per month, and the remuneration of the members of the Supervisory Board HUF 800,000 gross per month. The members of the Supervisory Board who, at the same time, are members of the Audit Committee shall not receive a separate fee.

PROPOSAL
TO AGENDA ITEM NO. 11

●

ADVISORY VOTE ON THE REMUNERATION POLICY PURSUANT TO ACT LXVII OF 2019 ON ENCOURAGING LONG-TERM SHARE-HOLDER ENGAGEMENT AND AMENDING CERTAIN ACTS FOR THE PURPOSE OF LEGAL HARMONISATION

The purpose of the Directors' Remuneration Policy is for Takarék Mortgage Bank Co Plc. to establish a remuneration policy for "directors" as defined in the Act LXVII of 2019 on Encouraging Long-term Shareholder Engagement and Amending Certain Acts for the Purpose of Legal Harmonisation ("Shareholder Engagement Act"), in line with the provisions of the Shareholder Engagement Act. Persons holding the following positions in Takarék Mortgage Bank Co Plc. fall within the personal scope of the Directors' Remuneration Policy, in accordance with the provisions of Section 2(2) of the Shareholder Engagement Act: the CEO, the Deputy CEOs, the members of the Board of Directors and the members of the Supervisory Board (together the "Directors").

The Directors' Remuneration Policy has been prepared in accordance with the Shareholder Engagement Act and the sectoral remuneration legislation applicable to Takarék Mortgage Bank Co Plc.

Pursuant to Section 16(5) of the Shareholder Engagement Act, Directors may be remunerated on the basis of the Directors' Remuneration Policy submitted to the General Meeting for an advisory vote.

Where the General Meeting rejects the proposed Directors' Remuneration Policy in an advisory vote, the company shall submit a revised remuneration policy to a new vote at the following General Meeting.

PROPOSED RESOLUTION

The General Meeting approves the remuneration policy pursuant to Act LXVII of 2019 ("Shareholder Engagement Act") in an advisory vote.

Takarék Mortgage Bank Co Plc.

CEO's Policy
No. 03/2022/VSZ/V1

Takarék Mortgage Bank Co Plc.'s Remuneration Policy pursuant to the Shareholder Engagement Act

the effective date of the current version of the policy: ….. 2022

Change history	
Organisational unit responsible for the policy (Policy Owner):	Human Resources
Organisational unit preparing the policy/responsible for compliance (if not the same as the organisational unit responsible for the policy):	-
Email address for communication related to regulation:	
File name:	03_2022_VSZ_v1.docx
Current version:	V1
Effective date of the current version:	…. 2022

Version number	Effective date	Type of modification	Reason for modification, and approval decision number, if any
V1	…... 2022	issue	The policy has been adopted by the General Meeting of Takarék Mortgage Bank Co Plc. by Resolution No. …...

1 Purpose of the Remuneration Policy pursuant to the Shareholder Engagement Act

The purpose of this Remuneration Policy (hereinafter referred to as the "**Directors' Remuneration Policy**" for the purposes of this Policy) is for Takarék Mortgage Bank Co Plc. to establish a remuneration policy for the personnel **as specified in Section 3.2** of this Directors' Remuneration Policy, which is in line with the provisions of Act LXVII of 2019 on Encouraging Long-term Shareholder Engagement and Amending Certain Acts for the Purpose of Legal Harmonisation ("Shareholder Engagement Act"), and to acknowledge their performance in a manner corresponding to

a) the MTB Group-wide "*Remuneration Policy"* issued by MTB Bank of Hungarian Savings Cooperatives Co. Ltd. ("MTB") (at the time of the entry into force of this Directors' Remuneration Policy, the policy number 2/2020, version V2, with direct effect), in accordance with the Remuneration Policy pursuant to Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Credit Institutions Act") ("Credit Institutions Act Performance-based Remuneration Policy"),

b) efficient and effective risk management, without encouraging the assumption of risks beyond the risk tolerance limits of Takarék Mortgage Bank Co Plc., and

c) the business strategy, objectives, sustainability, values and long-term interests of Takarék Mortgage Bank Co Plc., promoting the achievement thereof. [Section 16(2) of the Shareholder Engagement Act]

2 Relationship between the Remuneration Policy pursuant to the Shareholder Engagement Act and the Credit Institutions Act Performance-based Remuneration Policy

2.1 This Directors' Remuneration Policy is a separate remuneration policy in accordance with the rules of the Credit Institutions Act Performance-based Remuneration Policy, as specified under the Shareholder Engagement Act, to which the provisions set out in the Credit Institutions Act Performance-based Remuneration Policy shall apply *mutatis mutandis*, except for those provisions which, by their nature/intended purpose, are inapplicable or of no relevance to this Directors' Remuneration Policy.

2.2 This Directors' Remuneration Policy regularly references specific sections of the Credit Institutions Act Performance-based Remuneration Policy to avoid unnecessary repetition. Should the definitions and processes used in the Credit Institutions Act Performance-based Remuneration Policy change, this Directors' Remuneration Policy shall refer, *mutatis mutandis*, to the changed definitions and processes.

2.3 It is the responsibility of Takarék Mortgage Bank Co Plc. to ensure consistency between the Credit Institutions Act Performance-based Remuneration Policy and this Directors' Remuneration Policy.

3 Scope of the Remuneration Policy pursuant to the Shareholder Engagement Act – Takarék Mortgage Bank Co Plc. Directors

3.1 The institutional scope of this Directors' Remuneration Policy extends to Takarék Mortgage Bank Co Plc.

3.2 Persons holding the following positions in Takarék Mortgage Bank Co Plc. **fall within the personal scope** of the Remuneration Policy pursuant to the Shareholder Engagement Act:

a) the CEO,

b) the deputy CEO,

c) the members of the Board of Directors, and

d) the members of the Supervisory Board (for the purposes of this policy, hereinafter collectively referred to as the "**Directors**"). [Section 2(2) of the Shareholder Engagement Act]

4 Validity and amendment of the Remuneration Policy pursuant to the Shareholder Engagement Act

4.1 Payments to Directors may only be made on the basis of the Directors' Remuneration Policy approved by Takarék Mortgage Bank Co Plc.'s general meeting (hereinafter referred to as the "General Meeting"), with the proviso that the Remuneration Policy pursuant to the Shareholder Engagement Act shall be submitted to a vote by the General Meeting at every material change and in any case at least every four years. [Section 3:268 of the Civil Code; Section 16(5) of the Shareholder Engagement Act]

4.2 Where the General Meeting rejects the proposed Directors' Remuneration Policy submitted in accordance with Section 4.1 hereof, a revised Directors' Remuneration Policy shall be submitted to a new vote at the following General Meeting. [Section 16(6) of the Shareholder Engagement Act]

4.3 The amended or revised Directors' Remuneration Policy submitted to the General Meeting shall contain a description and explanation of all material changes since the last General Meeting vote on the Remuneration Policy pursuant to the Shareholder Engagement Act, as well as the way in which it takes into account the shareholders' views and votes on the Remuneration Policy pursuant to the Shareholder Engagement Act. [Section 17(4) of the Shareholder Engagement Act]

4.4 Where no Directors' Remuneration Policy has been approved and the General Meeting does not approve the proposed remuneration policy, Takarék Mortgage Bank Co Plc. may continue to pay remuneration to the Directors in accordance with its existing practices, with the proviso that it shall submit a revised policy for approval at the following General Meeting. [Article 9a(2) of Directive 2007/36/EC]

4.5 Where an approved Directors' Remuneration Policy exists and the General Meeting does not approve the proposed new Directors' Remuneration Policy, Takarék Mortgage Bank Co Plc. shall continue to pay remuneration to its directors in accordance with the existing approved Directors' Remuneration Policy and shall submit a revised policy for approval at the following General Meeting. [Article 9a(2) of Directive 2007/36/EC]

5 Possible derogation from the Remuneration Policy pursuant to the Shareholder Engagement Act

5.1 Derogation from this Directors' Remuneration Policy is possible only in exceptional circumstances (for the purpose of the long-term interests and sustainable operation of Takarék Mortgage Bank Co Plc. or to assure its viability) and temporarily, in accordance with the provisions of the Credit Institutions Act Performance-based Remuneration Policy.

6 Applicable rules

- Act V of 2013 on the Civil Code.
- Act LXVII of 2019 on Encouraging Long-term Shareholder Engagement and Amending Certain Acts for the Purpose of Legal Harmonisation.
- Rules listed in the Credit Institutions Act Performance-based Remuneration Policy.

7 Disclosure

7.1 The provisions of this Directors' Remuneration Policy must be made accessible to all stakeholders.

7.2 Following the General Meeting vote on the Remuneration Policy pursuant to the Shareholder Engagement Act, or in the case of its rejection the repeated vote, the Remuneration Policy pursuant to the Shareholder Engagement Act shall be made accessible free of charge on the website of Takarék Mortgage Bank Co Plc. during its validity, together with the date and result of the vote. [Section 18 of the Shareholder Engagement Act]

8 Elements of Directors' remuneration

8.1 As for the Directors, remuneration may only include, in accordance with the Credit Institutions Act Performance-based Remuneration Policy, Basic Remuneration and Performance-based Remuneration, with no third category, meaning that all remuneration elements may be assigned to either Basic Remuneration or Performance-based Remuneration.

8.2 The elements of the Directors' Basic and Performance-based Remuneration and their ratios are set out in the table below: [Section 17(1)(a) of the Shareholder Engagement Act]

Position	Basic remuneration	Performance-based remuneration	Maximum rate (ratio) of performance-based remuneration
CEO, Deputy CEO	Base salary, Mobile phone and car use	Annual Bonus	12 months' base salary
Internal member of the Board of Directors*	Base salary, Mobile phone and car use	Annual Bonus	12 months' base salary

* Only internal members of the Board of Directors of Takarék Mortgage Bank Co Plc. and only in respect of their employment are entitled to receive Base Salary and Performance-based Salary.

8.3 In order to properly manage conflicts of interest, external members of the Supervisory Board may only receive Base Remuneration and are not entitled to Performance-based Remuneration.

8.4 The amount of the Base Remuneration must be sufficiently high to allow the Performance-based Remuneration to be reduced to zero. Directors should not be dependent on the award of Performance-based Remuneration, as this may otherwise encourage excessive short-term risk-taking. [Sections 16(2) and 17(1)(b) of the Shareholder Engagement Act]

8.5 Performance-based Remuneration is determined in a manner so as to incentivise Directors to engage in long-term efficient performance of Takarék Mortgage Bank Co Plc., to enable Ex-post and Ex-ante Risk Assessment, and to allow for the potential recovery of cleared/paid Performance-based Remuneration. 100 percent of Performance-based Remuneration are covered by reduction and recovery rules in accordance with the provisions of this Directors' Remuneration Policy and the Credit Institutions Act Remuneration Policy. [Section 16(2) of the Shareholder Engagement Act; Section 17(1)(b) of the Shareholder Engagement Act]

8.6 As for the personnel covered by the Remuneration Policy pursuant to the Shareholder Engagement Act, upon determining the rate of remuneration, the following may be considered:

- qualifications, experience-related requirements and associated limitations as identified for the given position;
- labour market information; as well as
- responsibilities, liabilities and competencies; and
- importance of the position within the organisation, employment period. [Section 17(1)(b) of the Shareholder Engagement Act]

Directors' Performance-based Remuneration scheme (except for Supervisory Board members)

9 The principle and method of Performance-based Remuneration

9.1 The key principle of the Remuneration Policy pursuant to the Shareholder Engagement Act is that, in addition to ex-ante and ex-post assessment of risks, it ties the amount of the Performance-based Remuneration to

- the level of achievement of Group-level targets and
- the individual targets set for Directors.

9.2 The amount of the Performance-based Remuneration is established on the basis of the joint assessment of the targets, also taking into account the financial and non-financial criteria specified in Section 10.3. [Section 17(3)(a) of the Shareholder Engagement Act]

9.3 Performance-based Remuneration is paid when due in accordance with the provisions set out in the Credit Institutions Act Remuneration Policy.

10 The general principles and framework of performance measurement [Section 17(3)(a) of the Shareholder Engagement Act]

10.1 A fundamental prerequisite for the Performance Assessment is that Takarék Mortgage Bank Co Plc. sets the Directors’ targets for each current year. These targets must be derived from the business activities and strategy, corporate values, risk appetite and long-term interests of Takarék Mortgage Bank Co Plc. [Section 16(2) of the Shareholder Engagement Act]

10.2 In order to determine targets, any current and future risk factors must be considered, including on-balance sheet risks and off-balance sheet risks, making a distinction between the risks relevant to Directors.

10.3 In order to determine such targets, quantitative and qualitative performance criteria must be established for Directors, including the following financial and non-financial criteria:

Financial performance criteria	Non-financial performance criteria
Result indicators	Corporate values
Risk indicators	ESG indicators
Efficiency and quality indicators	

At the personal level, such criteria are included in the target agreements.

10.4 Quantitative criteria must cover a period long enough to suitably establish the risk undertaken by Takarék Mortgage Bank Co Plc. and the Directors, and must include risk adjustment and economic efficiency indicators.

11 Performance Measurement element at the level of Takarék Mortgage Bank Co Plc. - Company Evaluation Index

11.1 At the level of Takarék Mortgage Bank Co Plc., the performance measurement related to the Performance-based Remuneration is based on the target value of the Company Evaluation Index (as a score) for the relevant Current Year – determined pursuant to the approved annual Business Plan –, in accordance with the provisions of the Credit Institutions Act Performance-based Remuneration Policy.

In the year following the Current Year, the CEO of Takarék Mortgage Bank Co Plc. shall decide on the achievement of the target value of the Company Evaluation Index for the Current Year, which decision shall be confirmed by Takarék Mortgage Bank Co Plc.'s Board of Directors at its meeting held prior to the Annual General Meeting of the year following the Current Year, and by the Annual General Meeting of the year following the Current Year.

12 Performance Measurement element at Directors' level

12.1 At the personal level, performance measurement related to the Performance-based Remuneration is based on the assessment of indicators or target tasks against quantitative and qualitative criteria set out in target agreements.

13 Preliminary Risk Assessment

13.1 The CEO of Takarék Mortgage Bank Co Plc. is entitled to decide on the modification of the Company Evaluation Index (to a justified extent) or, if deemed necessary, the application of a proportional Performance-based Remuneration in accordance with the provisions of the Credit Institutions Act Performance-based Remuneration Policy, in line with the Group-level approval process.

13.2 At the personal level, the Preliminary Risk Assessment is performed on a quarterly basis during the Current Year, according to the criteria set out in the target agreements under the Performance Assessment Policy, the results of which are taken into account in the Performance Assessment.

The Preliminary Risk Assessment period starts from the setting of the Company Evaluation Index at bank group level and from the conclusion of the target agreements at personal level, and lasts until the Performance Assessment.

14 Instruments for Performance-Based Remuneration

14.1 50% of the Directors' Performance-based Remuneration shall consist of Cash Benefits, and 50% – unless otherwise provided by law and subject to any contrary provisions of this Credit Institutions Act Remuneration Policy – of Instrument-based Benefits in accordance with Section 118(11) of the Credit Institutions Act.

15 Payment of Performance-based Remuneration to Directors

15.1 The Cash Benefit portion of the Performance-based Remuneration of Directors shall be paid in cash, while the Instrument-based Benefit portion may be paid in the form of an instrument or cash – as decided by Takarék Mortgage Bank Co Plc.'s Board of Directors –, in accordance with the provisions of the Credit Institutions Act Performance-based Remuneration Policy.

15.2 In the case of Directors, 60% of the Awarded Performance-based Remuneration shall be paid on a deferred basis.

15.3 In the case of Directors whose Maximum Performance-based Remuneration that can be earned for the Current Year is below the threshold of €250,000, 40% of their Awarded Performance-based Remuneration shall be paid on a deferred basis.

15.4 For Directors, the deferral period in respect of the deferred portion of the Awarded Performance-based Remuneration is 4 years, within which period the amount of the deferred payment,

a) in the case of a 60% deferral as set out in this Remuneration Policy, shall be assessed at an equal rate (15%; 15%; 15%; 15%) in each due year,

b) in the case of a 40% deferral as set out in this Remuneration Policy, shall be assessed at an equal rate (10%; 10%; 10%; 10%) in each due year,

and both the non-deferred (short-term) and deferred payments shall be 50-50% Cash Benefit and Instrument-based Benefit respectively. [Section 17(3)(b) of the Shareholder Engagement Act]

15.5 In the case of Instrument-based Benefits, 50% of the first (non-deferred) portion shall be retained for one year.

15.6 Starting from the completion of the Performance Assessment and throughout the entire deferral period, any effects traceable to the activities of Directors in the Current Year must be considered, and the amount of the awarded performance-based remuneration deferred or paid in due time must be reduced accordingly, if necessary, within the framework of an Ex-post Risk Assessment.

15.7 The deferred portions may be paid following an Ex-post Risk Assessment.

15.8 The Annual General Meeting of the relevant due year shall have the right to decide on the reduction of the due and deferred portion of the performance-based remuneration awarded to the Directors within the framework of an Ex-post Risk Assessment.

15.9 The pro-rata Performance-based Remuneration shall be accounted for in accordance with the general rules, except that if the employment relationship is shorter than 6 months during the Current Year, the Eligible Person shall not be entitled to any Performance-based Remuneration, unless otherwise provided for by Takarék Mortgage Bank Co Plc. [Section 17(2) of the Shareholder Engagement Act]

16 Clawback rules [Section 17(3)(b) of the Shareholder Engagement Act]

16.1 If the Director

a) has committed a criminal offence relating to a group member or affecting its operation,
b) with regard to the tasks performed by them and their responsibilities, committed misconduct, serious failure, abuse or omission which does not constitute a criminal offence (especially if the act of the Director materially impaired the credibility and/or profitability of Takarék Mortgage Bank Co Plc. or its Subsidiary),
c) was involved in or was responsible for any practice that caused Significant Financial Loss, or
d) does not meet the expectations of competence and suitability,

their eligibility to the not yet paid portion of their awarded performance-based remuneration ceases and, pursuant to the procedure specified in the Credit Institutions Act Remuneration Policy, the CEO of Takarék Mortgage Bank Co Plc. shall be entitled to decide on the clawback of the performance-based remuneration that has been accounted for/paid to the Director concerned for the period affected by the circumstance substantiating the clawback. [Section 17(3)(b) of the Shareholder Engagement Act]

16.2 The General Meeting of Takarék Mortgage Bank Co Plc. has to right to decide on the clawback of the performance-based remuneration of the CEO of Takarék Mortgage Bank Co Plc. [Section 17(3)(b) of the Shareholder Engagement Act]

17 Conflict of interest [Section 17(1)(d) of the Shareholder Engagement Act]

17.1 Conflicts of interests with the Remuneration Policy pursuant to the Shareholder Engagement Act and with the remuneration specified by the Remuneration Policy pursuant to the Shareholder Engagement Act shall be identified and appropriately mitigated.

17.2 The Credit Institutions Act Performance-based Remuneration Policy ensures that no significant conflict of interest should arise with regard to the Directors and the persons performing the control functions.

18 Review of the Remuneration Policy pursuant to the Shareholder Engagement Act [Section 17(1)(d) of the Shareholder Engagement Act]

18.1 The Remuneration Policy pursuant to the Shareholder Engagement Act will be reviewed in the context of the Regular Annual Review (annual central review of the implementation of the Credit Institutions Act Performance-based Remuneration Policy and the Remuneration Policy pursuant to the Shareholder Engagement Act, on the basis of which the Supervisory Board of Takarék Mortgage Bank Co Plc. may amend them), to which the rules set forth in the Credit Institutions Act Performance-based Remuneration Policy shall apply.

19 Closing provision

This Remuneration Policy pursuant to the Shareholder Engagement Act was adopted by the General Meeting by resolution No. ......

The Remuneration Policy pursuant to the Shareholder Engagement Act shall be reviewed every four years.

Budapest, ………… 2022

Dr. NAGY Gyula
CEO

PROPOSAL
TO AGENDA ITEM NO. 12
●

ADVISORY VOTE ON THE REMUNERATION REPORT FOR 2021

1. *ASSESSING THE ACHIEVEMENT OF PRE-TAX PROFIT OR LOSS AND RISK INDICATORS*

Pre-tax profit or loss and risk indicators (hereinafter referred to as “Indicators”) are economic indicators used to measure the Bank’s economic performance and risk management.

Takarék Mortgage Bank Co Plc.’s performance measurement related to performance-based remuneration is based on the Takarék Group’s pre-tax profit or loss and risk indicators.

The target value of the Indicators for the current year has been determined at the group level for the credit institution members of the Takarék Group, and has been adopted by the Board of Directors and the Supervisory Board in the Remuneration Policy in accordance with the Credit Institution Act.

The Board of Directors of Takarék Mortgage Bank Co Plc. shall decide on the achievement of the target value set for the Indicators for the current year, which decision shall be confirmed by the Annual General Meeting of the year following the current year.

At the Takarék Group level, the performance measurement related to performance-based remuneration is based on the target value of the Indicators set for the current year. The Remuneration Policy pursuant to the Credit Institution Act sets out the detailed description of the content of and the method for calculating the Indicators.

During the current year, the company shall continuously monitor the development of the banking group level Indicators through regular reports from the finance and risk management areas, and if it detects that the current value of the Indicators deviates significantly from the target value, it may initiate a preliminary risk assessment by notifying the specialist areas. The priority task of the specialist areas is to reassess the performance indicators annually, and if necessary, at mid-year. The reassessment must always be carried out before payments are made to highlighted persons. Depending on the outcome of the reassessment, it adjusts the performance indicators to reflect the risks.

Payment of the performance-based remuneration is subject to the following 4 indicators:

- Pre-tax profit or loss
- Non-performing loan ratio (NPL)
- Consolidated Capital Adequacy Ratio (CAR)
- Consolidated liquidity coverage ratio (LCR)

The business objectives of the company are determined in line with the group-level business objectives.

The company has calculated certain sub-elements of the Indicators for the year 2021:

Evaluation of pre-tax profit or loss in the case of a positive budgeted figure is the ratio of the actual figure for the current year to the budgeted figure for the current year. Risk indicators can be considered achieved if they reach the expected level set out in the Remuneration Policy. The expected value of the NPL ratio is the orange alert level in the Recovery Plan. The expected level of the Consolidated Capital Adequacy Ratio (CAR) is the orange alert level in the Recovery Plan. The Consolidated liquidity coverage ratio (LCR) is the orange alert level in the Recovery Plan.

In 2021, the pre-tax profit was positive and the level of risk indicators was above the expected level.
Takarék Mortgage Bank's pre-tax profit for 2021 was above target, and Mortgage Bank successfully issued its first green mortgage bond in 2021. The Business Report (Agenda item No.1) contains detailed results of the Bank for 2021.

In light of the above, the Board of Directors concluded that the preliminary group-level Indicators and the business objectives of Takarék Mortgage Bank Co Plc. serving as the basis for the payment of the performance-based remuneration for 2021 have been achieved for the financial year 2021, which was also confirmed by the Supervisory Board.

Proposal to the General Meeting

It is proposed to the General Meeting to confirm the relevant decision of the Board of Directors stating that the preliminary group-level Indicators have been achieved for the financial year 2021 and that the Mortgage Bank has also completed a successful financial year in 2021.

2. *DECISIONS CONCERNING THE REMUNERATION OF THE CEO*

The Board of Directors has reviewed the indicators set out in the Remuneration Policy for the year 2021 of Dr. NAGY Gyula László CEO and concluded that they have been met and proposes to establish his entitlement to variable remuneration. The Supervisory Board has confirmed the decision of the Board of Directors and proposes that the General Meeting assess the CEO's eligibility for the variable remuneration. The board member personally concerned did not take part in the decision.

In the performance assessment process, targets are developed in a "waterfall" format. The group-level targets are broken down into their own targets for each area, and then the employees' targets are set on the basis of these targets. Each target statement must contribute to the achievement of the higher-level target in order to meet the group-level targets.

Decision on the volume of the CEO's variable remuneration based on the aggregated evaluation of the group-level and Takarék Mortgage Bank's business objectives and performance, considering financial and non-financial criteria. Evaluation of non-business criteria is in line with the corporate values.

The actual payment is defined and granted in the framework of the group-level performance assessment process.

Proposal to the General Meeting

The proposal to the General Meeting is to support, based on the Supervisory Board's conclusion, that Dr. NAGY Gyula László CEO is entitled to a variable remuneration for the year 2021.

A further proposal is that the General Meeting requests the Board of Directors to decide on the amount of the variable remuneration to be paid to Dr. NAGY Gyula László CEO for the year 2021 within the variable remuneration envelope, allocated according to the provisions of Takarék Mortgage Bank Co Plc.'s Credit Institutions Act Remuneration Policy, for persons subject to the remuneration policy pursuant to the Credit Institution Act.

PROPOSED RESOLUTION

The General Meeting confirms the relevant decision of the Board of Directors, noting that the expected profit and risk indicators have been achieved for the financial year 2021.

The General Meeting notes and supports that, in connection with the adoption of the annual accounts for the year 2021, Dr. NAGY Gyula László CEO is entitled to receive performance-based remuneration for the financial year 2021.

The General Meeting hereby requests the Board of Directors of Takarék Mortgage Bank Co Plc. to decide on the amount of the performance-based remuneration to be paid to Dr. NAGY Gyula László CEO for the year 2021 within the performance-based remuneration envelope, allocated according to the provisions of Takarék Mortgage Bank Co Plc.'s Remuneration Policy pursuant to the Credit Institutions Act, for persons subject to the remuneration policy pursuant to the Credit Institution Act.

Aggregated data of voting rights attached to its shares and of the share capital of Takarék Mortgage Bank Co. Plc on 31 March 2022

On 31 March 2022, the amount and the composition of the Company's share capital is as follows:

Series	Face value (HUF)	Shares issued	Total face value (HUF)
Series "A" (ordinary shares)	100	66 000 010	6 600 001 000
Series "B" (preferential shares)	100	14 163 430	1 416 343 000
Series "C" (ordinary shares)	1000	2 832 686	2 832 686 000
Amount of share capital		**82 996 126**	**10 849 030 000**

Voting rights attached to the shares on 31 March 2022 irrespective of the limitation of the voting rights as set in point 12.1.1 of the Statutes:

Series	Shares issued	Voting rights attached to shares	Voting rights / shares	Total voting rights	Treasury shares
Series "A" (ordinary shares)	66 000 010	66 000 010	1	66 000 010	253 601
Series "B" (preferential shares)	14 163 430	14 163 430	1	14 163 430	0
Series "C" (ordinary shares)	2 832 686	2 832 686	10	28 326 860	0
Total	**82 996 126**	**82 996 126**		**108 490 300**	**253 601**

Budapest, on 7 April 2022

Takarék Mortgage Bank Co Plc.