INVESTOR PRESENTATION

Takarék Mortgage Bank Co. Plc.

June 2020

Content

Abbreviations

CCI: Co-operative Credit Institutions

TMB: Takarék Mortgage Bank Co. Plc

TCB: Takarék Commercial Bank Ltd.

MTB or Takarékbank: Magyar Takarékszövetkezeti Bank Ltd. Also the central bank of Integration

SZHISZ (IOCCI): Organization of Cooperative Credit Institutions Integration: members of Integration of cooperative credit institutions including MTB, TCB, TMB and cooperative credit institutions

Takarék Group: MTB, TCB, TMB, Co-operatives and other subsidiaries of MTB

MFAR: Mortgage Funding Adequacy Ratio

NBH: National Bank of Hungary

OBA: National Deposit Insurance

Jht.: Act on Mortgage Bank and Mortgage Bonds

HCSO: Hungarian Central Statistical Office

GDMA: Government Debt Management Agency

Fund: Capital Guarantee Fund of the Integration

1. Integration Organization of Cooperative Credit Institutions

TAKARÉKCSOPORT

Takarék Group's evolution

1957

Saving Cooperatives

Foundation of cooperative banks in the form of Saving Cooperatives

1989

MTB

(Called Takarékbank prior to April 2019)

Foundation of MTB

- 260 Saving Cooperatives
- Strengthening the market position
- Supporting the business activities of Saving Cooperatives as a central bank (e.g. product development)

By the time of 2013

Pre-integration

- No. of Saving Cooperatives: 122
- Low capitalization level in the sector
- Basic services available
- Complicated organizational framework
- Different IT systems
- Not standardized marketing/branding

2013

Integration Act

Changed the basic framework of the regulation related to the cooperative sector:

- New body has been incorporated (Integration Organisation of Cooperative Credit Institutions - IOCCI)
- New principles of liabilities have been introduced (cross guarantee)
- MTB has become the central bank of the integration

Since 2018

Integration, mergers

- By the end of 2017, the number of Cooperative Credit Institutions (CCIs) are significantly decreased through the mergers of 52 CCIs, thus only 12+3 regional CCIs remained besides Takarék Commercial Bank and Takarék Mortgage Bank.
- In 2019 a **new commercial bank (Takarékbank)** **was established** in two phases **by the merger of 12+3 CCIs, Takarék Commercial Bank and MTB's portfolio transfer.**

By 31.10.2019, fourteen Cooperative Credit Institutions (CCIs) and Takarék Commercial Bank fused in Takarékbank, while MTB's loan and deposit portfolio was transferred

Legal transformation of Takarék Group

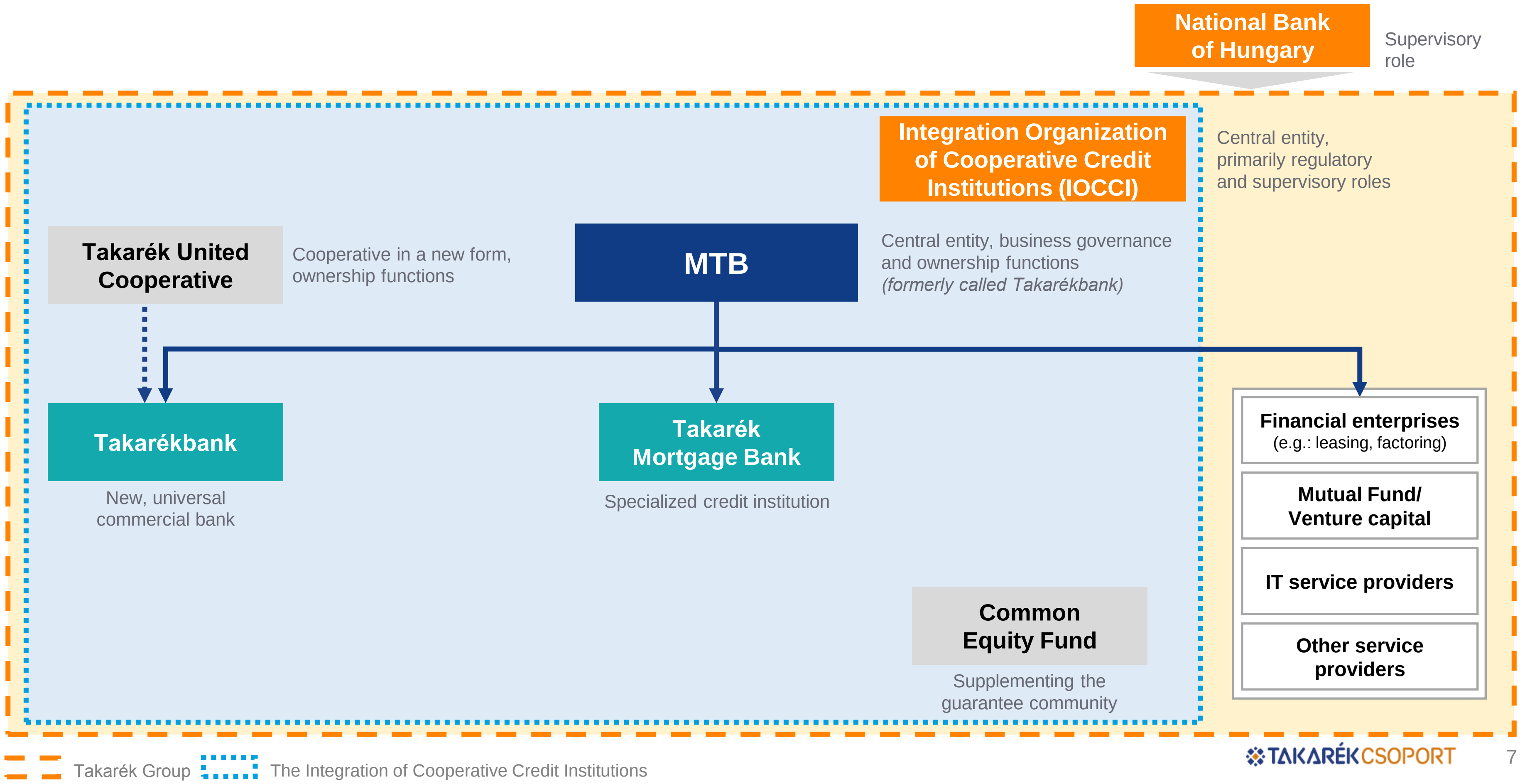
Baseline	1. Phase (till 30.04.2019)	2. Phase (till 31.10.2019)
14 CCIs: B3, Mohács, Pannon, 3A, Békés, Centrál, Dél, Fókusz, Hungária, Korona, M7, Nyugat, Pátria, Tiszántúl	**new Takarékbank:** **3 CCIs** *(fusion)*; **MTB[1]** - only corporate & retail loans and deposits *(portfolio transfer)*	**new Takarékbank:** **14 CCIs** *(fusion)*; **MTB[1]** - only corporate & retail loans and deposits *(portfolio transfer)*; **Takarék Commercial Bank** (fusion)
	3A, Békés, Centrál, Dél, Fókusz, Hungária, Korona, M7, Nyugat, Pátria, Tiszántúl	
Takarék Commercial Bank	**Takarék Commercial Bank**	
MTB[1] (central bank)	**MTB[1]** (central bank)	**MTB[1]** (business governor)
Takarék Mortgage Bank	**Takarék Mortgage Bank**	**Takarék Mortgage Bank**
	Takarék United Cooperative[2]	**Takarék United Cooperative[2]**

✓ Completed phase

1 MTB was formerly called as Takarékbank

2 Cooperative in a new form, performing ownership functions. ‚Holding cooperative'.

Management structure of Takarék Group



Main goals of Takarék Group strategy 2019-2023 are increasing competitiveness and profitability

Main goals of Takarék Group's strategy 2019-2023

Modernization, business renewal

- New product strategy
- New segment strategy
- New service model
- Digital strategy

Organizational renewal

- Gradual fusion of CCIs into a new commercial bank (Takarékbank)
- New, simplified, efficient organizational structure
- Improved, and rationalized, more customer friendly branch network

Maintaining and refreshing traditions and values

- Combining savings cooperative traditions with modern innovative commercial bank practices
- Supporting generations and communities

A banking group with increasing profitability and financially sustainable operations

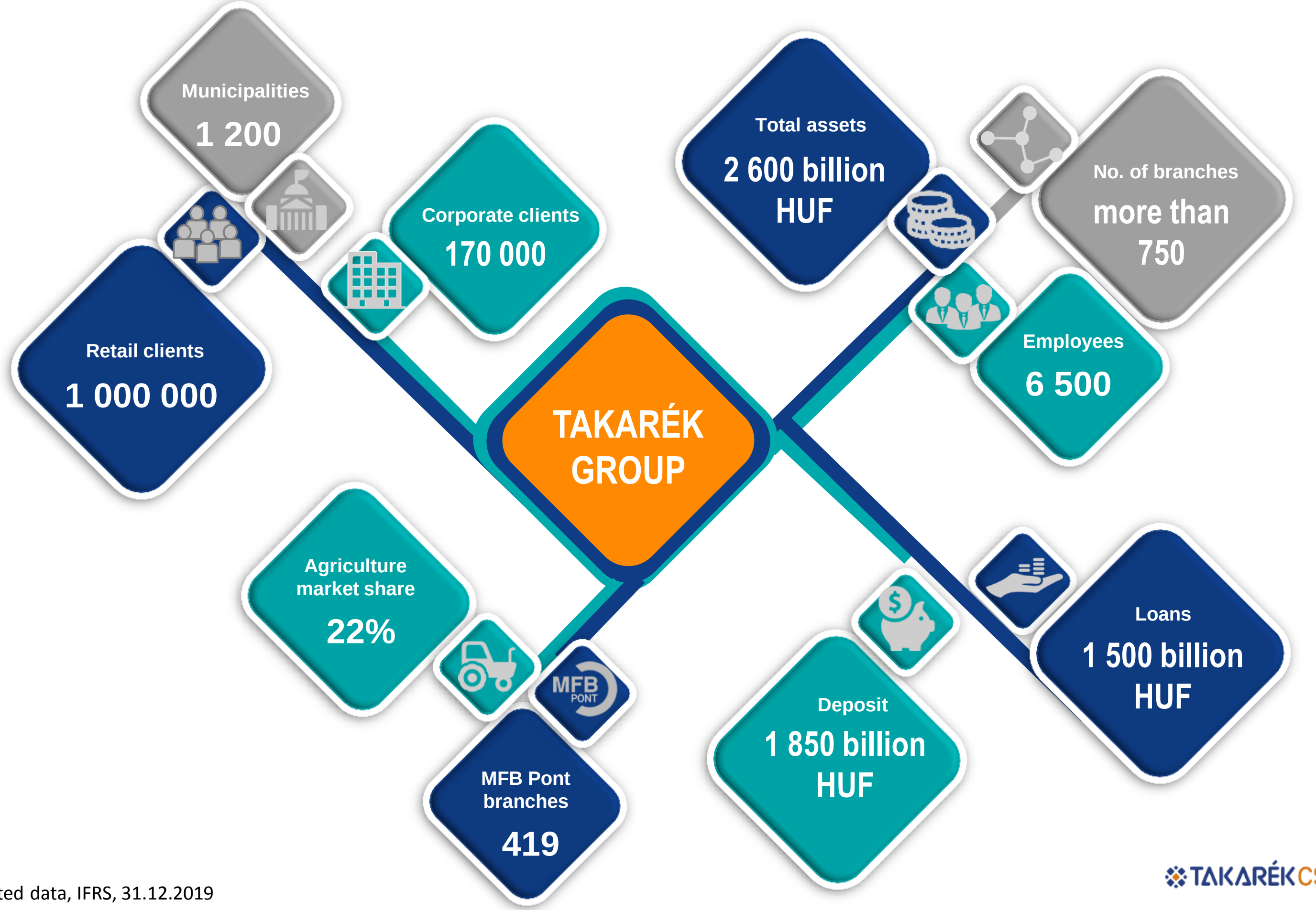
Sustainable annual 30 Bn HuF profit

10% market share

Significantly decreasing operating costs

✓ Completed ✓ In progress

Integration in numbers – one of the largest market player*



* Based on prudential consolidated data, IFRS, 31.12.2019

Strategic cooperation was formed between MTB, MKB Bank and Budapest Bank in May 2020

A **strategic cooperation between the 3 banking groups was formed in May 2020** by signing a **letter of intent to establish a joint financial holding company**. The exact **form and timeline** of the cooperation is **under examination**.
Based on HUF 5800 bn combined assets it **would be** by far the **second largest banking group** in Hungary.
At this point the involved parties operate as standalone banking groups, there are **no effects on the ongoing individual activities.**

- On the 15th of May 2020, MTB Zrt. and MKB Bank Nyrt. **signed a letter of intent to establish a joint financial holding company** (Magyar Bankholding Zrt.). Budapest Bank Zrt. also joined the strategic cooperation on the 26th of May 2020. The holding **will be established with three equal shares**.
- Within the strategic cooperation, experts will examine and **prepare the framework for the establishment of a new, domestically owned large banking group.**
- The strategic cooperation at this point **doesn't affect the activities of the standalone organizations,** the ongoing corporate restructuring will progress as previously planned in Takarék Group.
- A deeper cooperation, a potential partial or full merger **serves the interests of the customers, the owners** and **meets the global trends** and the **consolidation expectations of the Hungarian National Bank**.
- The **banking groups would complement each other perfectly,** considering their **clientele**, **services and business focus**, and **could result in significant cost and investment synergies** (e.g. head-office, branch network and IT).
    - Takarék Group primarily has clientele of retail customers from small towns and small settlements as well as agricultural and other small and medium-sized enterprises and extensive municipal relations
    - MKB has mostly urban, more affluent clientele with its private banking, corporate and leasing portfolio
    - BB has significant retail, micro, small and medium-sized enterprises portfolio
- Takarékbank, MKB and Budapest Bank serve almost **1.9 million customers**, operating **almost half of the domestic branch network** (more than 920 branches) and their **combined total asset** is approaching **HUF 5800 bn**, which could make them by **far the second largest banking group** in Hungary.

2. Company Overview, Ownership & Organization Structure, Strategy

TAKARÉKCSOPORT

Dominant debt security issuer in Hungary

Pioneer of the domestic mortgage bond market

- The first Hungarian mortgage bond was issued by Takarék Mortgage Bank (or TMB, former FHB in 1998)
- The first mortgage bond issuance program in Hungary (2002)
- Launching Hungary's first (2003) international, Euro Mortgage Securities and Euro Medium Term Note (EMTN) issuance program.
- Issuer of the first (2003) structured (SPV) mortgage bond

- **Debt Securities Issuer of the Year** award won 9 times in the last17 years– Budapest Stock Exchange Mortgage bond issuer of the year in 2019
- **Bank of the year** in 2010
- **Best Companies in Central & Eastern Europe** – 2005, Euromoney
- **Best Structured Borrower** – 2004, Euromoney

TAKARÉKCSOPORT

22-year activity on local and international capital markets

Long standing experience, proven track record in capital market

- More than **HUF 1600bn total issue of covered and unsecured bonds since 2005**, nominal amount of issues reaches HUF 60-120bn on annual basis, 16-20 transactions per year

- **Strong know-how basis**: fundamentals of
  - mortgage covered bonds,
  - unsecured bonds,
  - rating process,
  - Employee Stock Ownership Plan (ESOP),

- Local issue programs updated in every year since 2002, presence on international capital market through established **EMTN program**

- Primary and secondary market presence with **broad based knowledge of local institutional investors** enables TMB to organize roadshows and presentation documents

- Innovator in **product development**: CPI-linked bonds, structured bonds, other floating rate type bonds, tailor made structures

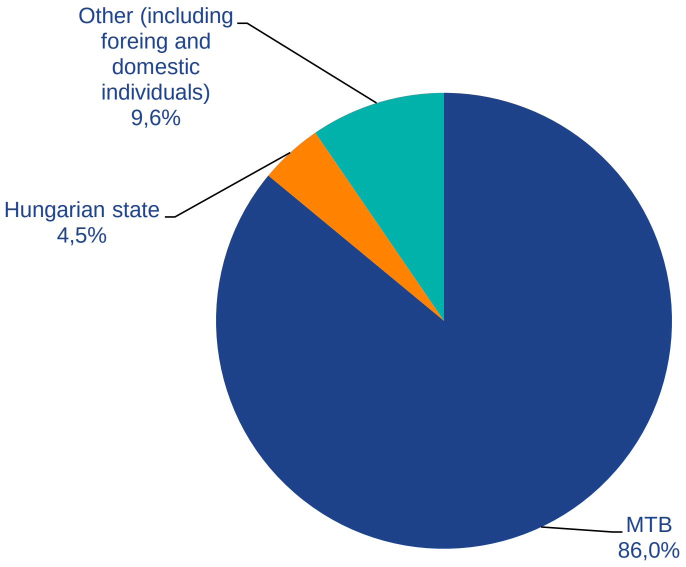
History of Takarék Mortgage Bank (TMB) – Road to the Integration

Year / Milestones /Strategic cooperations
1997/ FHB Mortgage Bank was established, as a state-owned specialized financial institution
2006/ FHB Commercial Bank, FHB Life Annuity Ltd. and FHB Real Estate Ltd were established, formation of FHB Group
2010/ Allianz Hungarian Insurance Company – cooperation agreement (cross selling)
2013 / Hungarian Post – cooperation agreement
2014 / Integration Organization of Cooperative Credit Institutions (IOCCI) – start of strategic cooperation
2015 / Takarék (ex-FHB) Mortgage Bank Plc. and Takarék (ex-FHB) Commercial Bank Ltd. become member s of (IOCCI) on September 23, 2015
2017/ New ownership structure close to 90% of the cooperative sector and MTB
2017/ Satellite institutions are directly subordinated to MTB.
April 2018 / Pure Refinancing Mortgage Bank
October 2019 MTB's binding offer to TMB for buying the 51% ownership of the Takarék Commercial Bank

Acquisitions/Investments
2011/ Allianz Bank – full merger with Takarék (ex-FHB) Commercial Bank Co. Plc.
2013/ Diófa Asset Management Ltd.– 89.2% direct ownership
2013/ DÜSZ Group: indirect ownership in DB Faktorház (Factoring) – 51% , DíjNET – 51% and DB IT Ltd. – 50%
2014/ Magyar Takarék Asset Management Ltd. (MATAK) – 25% +1 pcs direct ownership
2014/ Bank of Hungarian Savings Cooperatives Co. Ltd. (MTB) – 13.71% indirect ownership
2015/ DOM-P IT Service Ltd. – 13.9% indirect ownership
2015/ MPT Security Ltd. – 9.99% indirect ownership

TMB's Ownership structure – Share of Integration members is close to 90%

Takarék Mortgage Bank Co. Plc. ownership stucture (25.02.2020)



Composition of the board of directors

József Vida: Chairman (Chairman and CEO of MTB since 30 November 2016)

Dr Gyula Nagy: CEO of Takarék Mortgage Bank since 26 April 2017

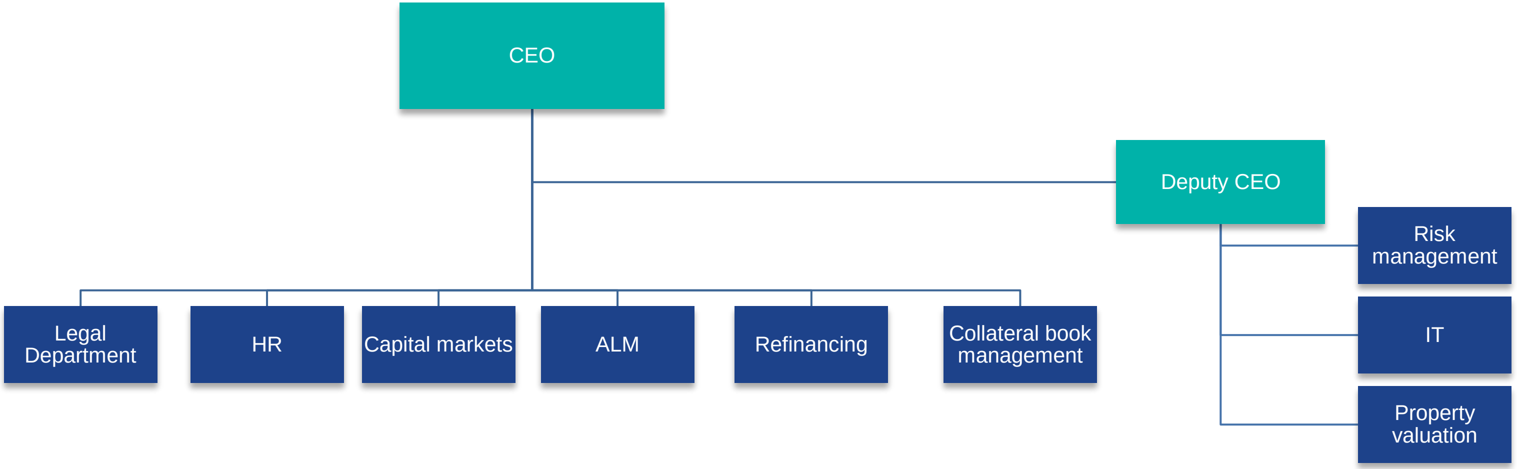
Gábor Gergő Soltész: since 16 November 2016 - member

Attila Mészáros: MTB CRO since 11 October 2018 - inner member

Éva Hegedűs: elected at GM as of 27 October 2018 – member

Pál Sass: member since 1st of October 2019

Organisational structure since 2017 – Takarék Mortgage Bank (‚Refinancing mortgage bank')



Functions retained at TMB:

- Refinancing
- Covered bond issuance
- Collateral book management
- Property valuation

Non-core functions are under common coordination with MTB:

- HR, IT, PR, product development
- Accounting, controlling, NBH reporting
- Security services (property, IT, etc.)
- Risk management, modeling, capital planning

Strategy, growth targets – Takarék Mortgage Bank

Business strategy since 2017

- Deeper embeddedness into the Integration.
- Subsidiary from Group leader: TMB handed over its group holding role and functions to MTB. Satellite institutions of the Integration (mutual fund management, factoring and leasing service suppliers) are directly subordinated to MTB.
- Only core activities: TMB operates exclusively as mortgage bond issuer and refinancing center (Pure mortgage bank business model). TMB provides mortgage refinancing service for the whole cooperative sector.
- Expanding mortgage refinancing business in parallel with the Introduction of the Mortgage Financing Adequacy Ratio (JMM/MFAR) from 2017.
- TMB's balance sheet contains subsidized retail loans and some project loans (together: ≈HUF 60 bn)

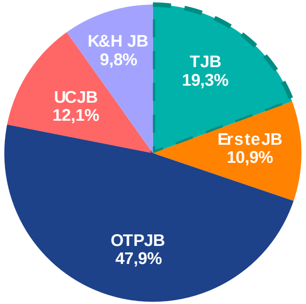
Market position and initiatives

- The most active player in refinancing and mortgage bond issuance on the domestic market
- Nearly 20-year presence in local and international capital markets, Listed on Budapest Stock Exchange since 2003
- Rated by S&P: Covered bond rating: BBB with stable outlook – investment grade
- Strong know-how in mortgage bond and unsecured bond issuance, rating process and mortgage refinancing
- The biggest refinancing center in Hungary – 11 (non-Integration) partners
- 4.3-4.4% market share in retail mortgage lending, ≈ 20% ratio in the covered bond market
- Key priorities: profitability, high level services for refinancing partners, access to NBH provided long term funds
- Growth target: increasing refinanced loan portfolio via streamlining the refinancing system
- Streamlining: making the refinancing process, the coverage register, the IT system and the ALM more efficient

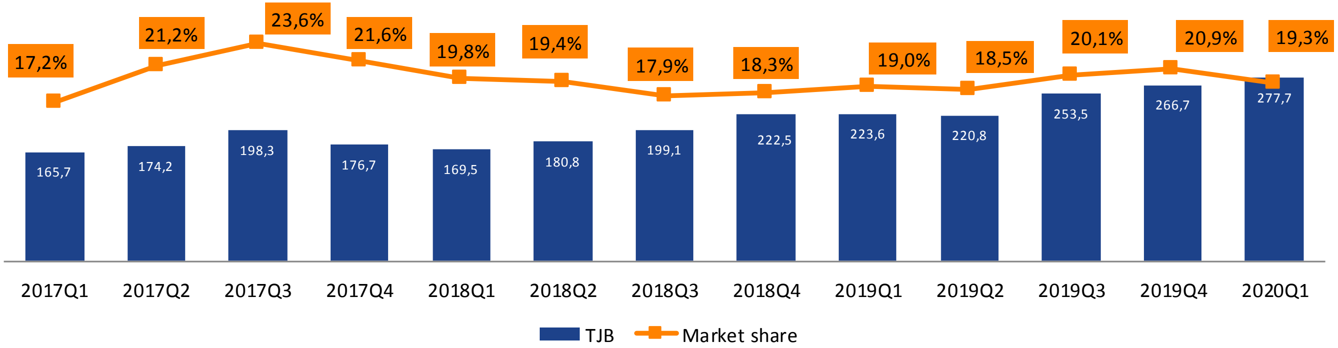
Market position - dominant player on the local mortgage refinancing market

- First mortgage bank in Hungary engaged in mortgage refinancing (2001)
- Market leader in terms of number of partner banks: 11 partners currently
- Large tickets, standardized refinancing process
- Introduction of MFAR ratio significantly increased market competition, TMB entered into refinancing contract with four new banks in 2017
- Main competitors: 3 domestic mortgage banks (Erste MB, OTP MB, Unicredit MB)
- TMB market shares:
  - CB issued ≈ 20%
  - mortgage loan portfolio: ≈ 4.3%

Market share of local mosrtgage banks based on issued mortgage bond volume (2020 Q1)

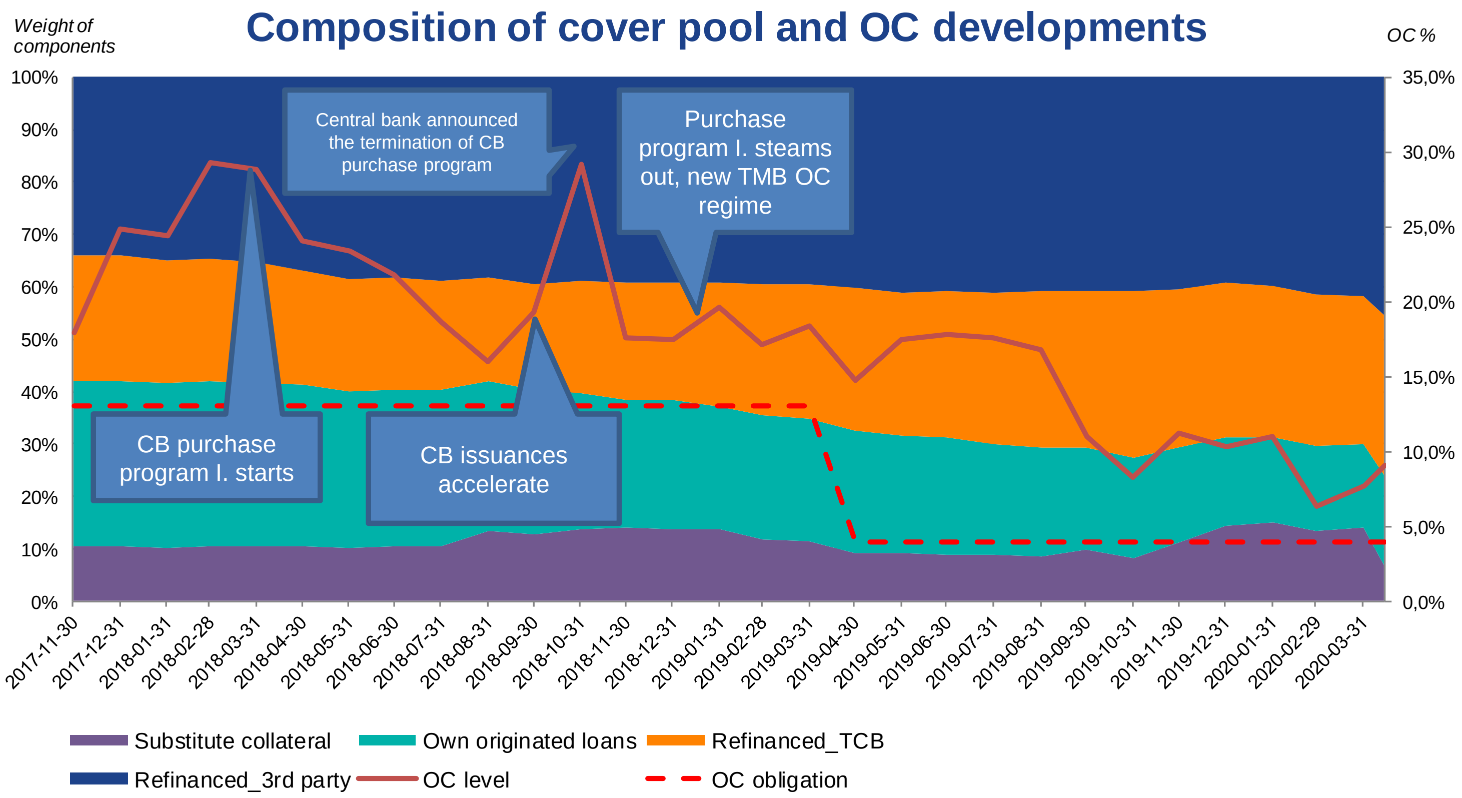


Outstanding mortgage bond volume

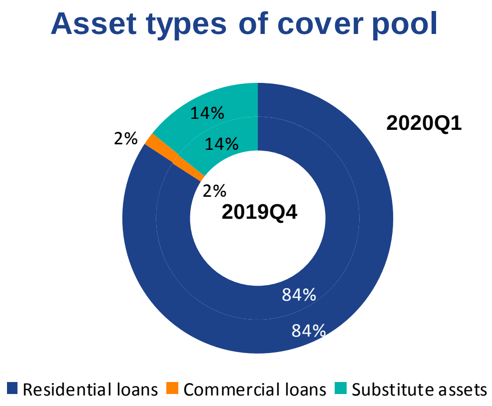


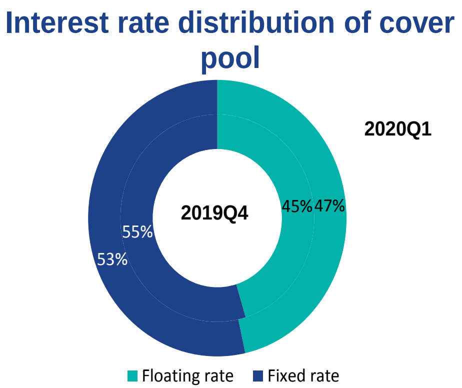
3. Cover pool characteristics and risk profile

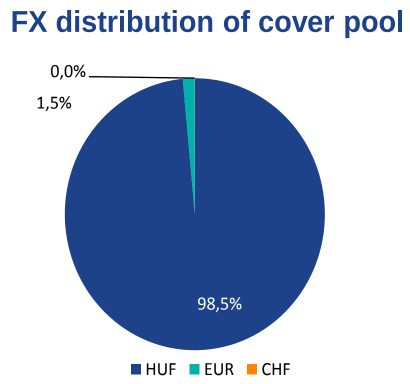
Cover pool composition: refinancing plays an increasing role

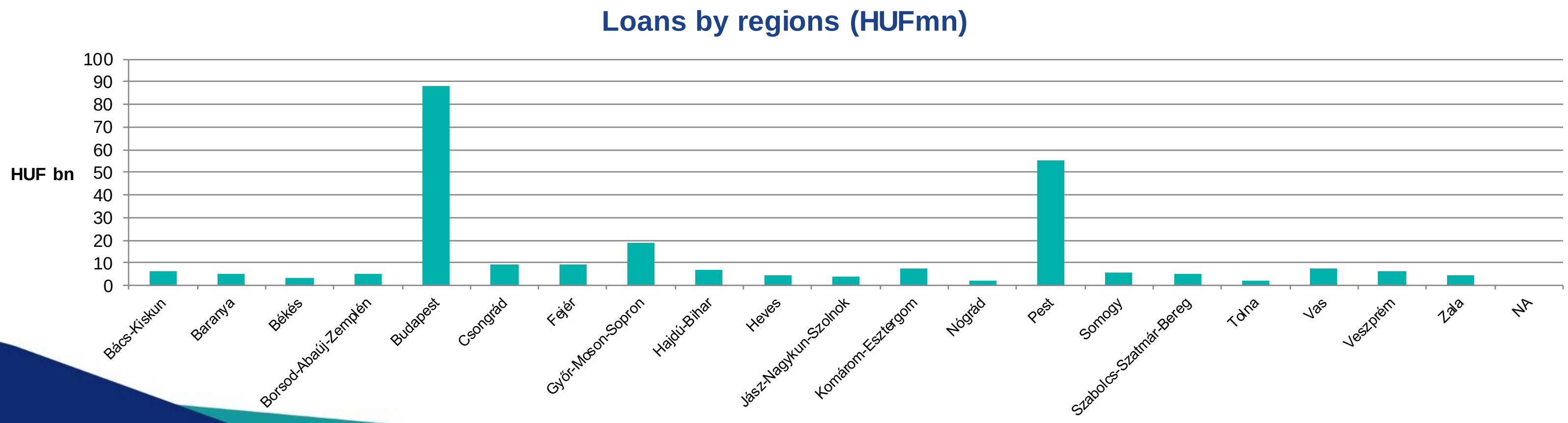


Cover pool characteristics Q1 2020



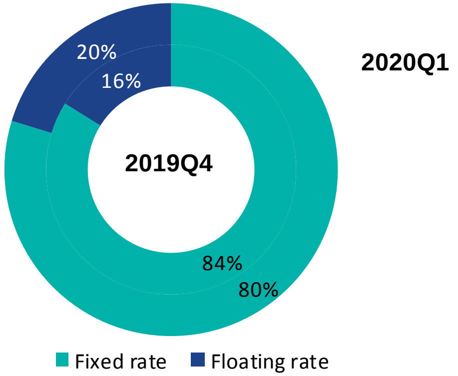




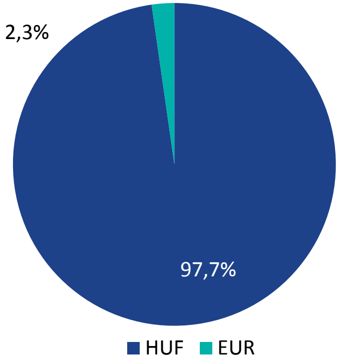


Cover bond portfolio characteristics Q1 2020 and rating

Interest rate distribution of covered bonds



FX distribution of outstanding covered bonds



Category	S&P rating	Date of new rating
Local and foreign-currency denominated covered bonds	BBB stable	2020.05.12.

TAKARÉKCSOPORT

Risk mitigating factors of TMB's covered bonds

Integration:

Guarantee community covers TMB's mortgage bonds, mechanism for financial stability significantly decreases PD

Voluntary obligations:

Min 2% OC, 6m liquidity

CRR:

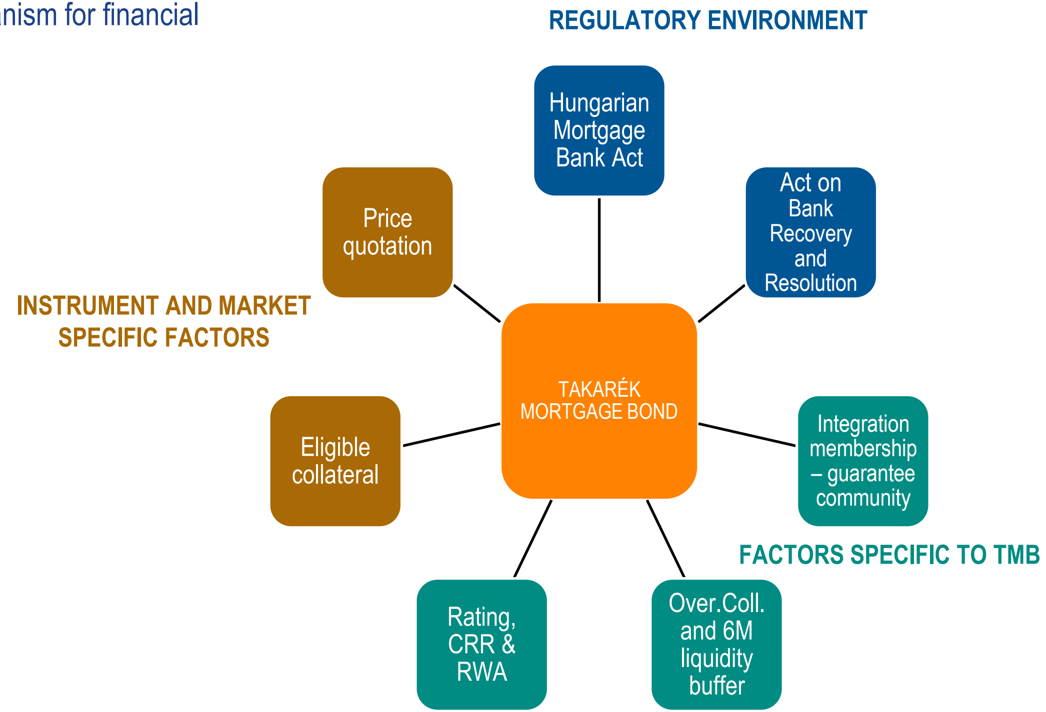
Mortgage bonds comply with CRR 129.
TMB mortgage bond investors benefit from lower 20% RWA

Eligibility for collateral:

Listed on the BSE
Price quotation on BSE and OTC

Reports:

Transparency regular reporting templates
Quality assurance reporting



TAKARÉKCSOPORT

Risk profile of Takarék covered bonds

Risk mitigation factors

Regulation:

- Act no. XXX of 1997 on mortgage banks and mortgage bonds (Jht.) see: Appendix I.
- Specialized credit institution principal
- Limited activity
- No bail in (pursuant Act XXXVII of 2014) see: Appendix I.
- Eligible for repo transactions at NBH and ECB

Cover pool monitor and banking supervision:

- Coverage supervisor
- Regular supervisory control
- Special transparency requirements

Cover assets:

- LTV - Loans secured by a residential real estate can be taken in cover up to 70% of the mortgage lending value of the property
- The rules of calculation of the mortgage lending value are included in two Decrees of the Minister of Finance
- Auditor's confirmation on the problem free loans

TMB's specialties:

- Integration's guarantee community (see: next block)
- Strong ownership structure
- Rating, CRR and UCIT compliance, four-member market making, consortium
- Pursuant to the internal regulation extra undertakings: 2% overcollateralization and 6M liquidity

4. Investor Protection within the Integration

TAKARÉK CSOPORT

Investor protection within the Integration I.

The cross-guarantee system

- **<u>Szhitv. or *Integration Law*</u>** CXXXV. of 2013: IOCCI and its members **are jointly liable for their obligations** independent from the date of liabilities incurred. The joint and several liability is the most important investor protection tool.

- **The full capital and liquidity of the Integration** will be available to protect savings beyond the scope of National Deposit Insurance Fund (OBA).

- If a member voluntarily leaves the Integration, **the joint and several liability of the Integration will remain** valid for that particular member's liabilities (1) incurred until the day it ceases to be a member, and (2) the claim against the leaving member is submitted within 730 days. The **leaving member remains liable** for liabilities (1) incurred until the day it pulls out in regard of its Integration membership and (2) the claim is submitted within 730 days after it leaves.

Investor protection within the Integration II.

Legal background

<u>**Szhitv. or Integration Law**</u>: Act CXXXV of 2013 on the Integration of Co-operative Credit Institutions (CCIs)

- The Board of Directors of the Integration Organization adopts obligatory regulations for the members of the Integration Organization and the Affiliate Enterprises in order to achieve the unified operation, central management and the other main goals of Integration of the cooperative credit institutions.

1. The **Integration of Organization of Cooperative Credit Institutions** (IOCCI) adopted obligatory regulation for the members on the rules of financial support for cooperative credit institutions

   - controls the form, process of any **capital** injection and the type of capital to be provided to the members in case of liquidity shortage or capital adequacy crisis, as well as decides the methods and tools of the financial support.
   - aims at preventing, avoiding or solving capital crisis. IOCCI intends to support its members to re-establish financial balance, restore the required level of capital adequacy by providing temporary capital or support in any other form.

2. The Business Management Organization of the Integration (MTB) acts as the central organization of the Integration on the field of the unified business operation and management. MTB adopts obligatory regulation for all members of the IOCCI on risk management rules, risk strategy, detailed rules of risk management (including credit risk, limits, risk monitoring, deposits placements, cash management, investment policy, rating and impairment); on integration level supply practice, unified IT systems, and on the general terms and conditions of financial and additional financial services and investment and supplementary investment services. MTB is entitled to adopt obligatory rules for the members and the Affiliates of the Integration.

3. <u>MTB is obliged to provide extraordinary liquidity loan to cooperative credit institutions in case of liquidity crisis.</u>

Investor protection within the Integration III.

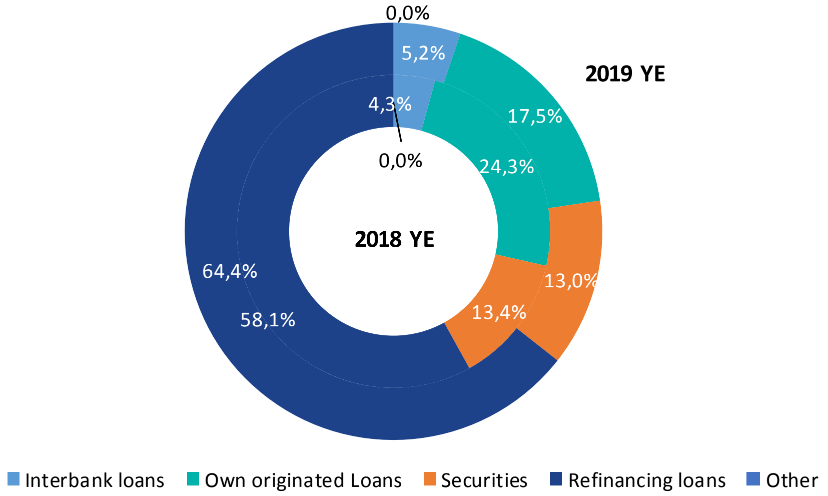
Capital Guarantee Fund (Fund)

- **Capital Guarantee Fund (Fund): Base pillar of the cross-guarantee system, established in 2014**
  - The Fund's goal to first settle the proven claims against members of a cooperative credit institution on the basis of the joint and several liabilities in the Integration
  - The resources of the Fund are the regular and extraordinary payments of CCIs and MTB based on §17/P of act CXXXV. 2013. (0.06% of the deposit portfolio shown in the audited balance sheet of the CCI).
  - The Fund pays immediately following the day the credit institution is liquidated
- **Operating mechanism of the Fund**
  - The aim of the Fund is to settle proven claims against the cooperative credit institutions and the business management organization of the Integration on the basis of the joint and several liabilities, and to ensure the successful execution of the transfer of funds specified in the Szhitv using the funds of the Fund.
  - If the amount required for the payment exceeds the balance of the Fund, the Fund may order an extraordinary contribution from the cooperative credit institutions and the integration business management organization.
  - The amount paid into the Fund can only be used for the purpose of covering the proven claims against the members of the Integration on the basis of the joint and general liability.
- **The Fund is above and not instead of OBA (National Deposit Insurance, covering the banking sector)**
  - **Deposits with the members of the Integration are secured by OBA and also by the Fund and by the Integration Organization itself.**
  - OBA secures the deposits up to the first 100.000 euros in any member: OBA is the first who pays compensation, but OBA can enforce its claim directly from the Fund.
  - OBA pays within a few days following the day the credit institution becomes insolvent.

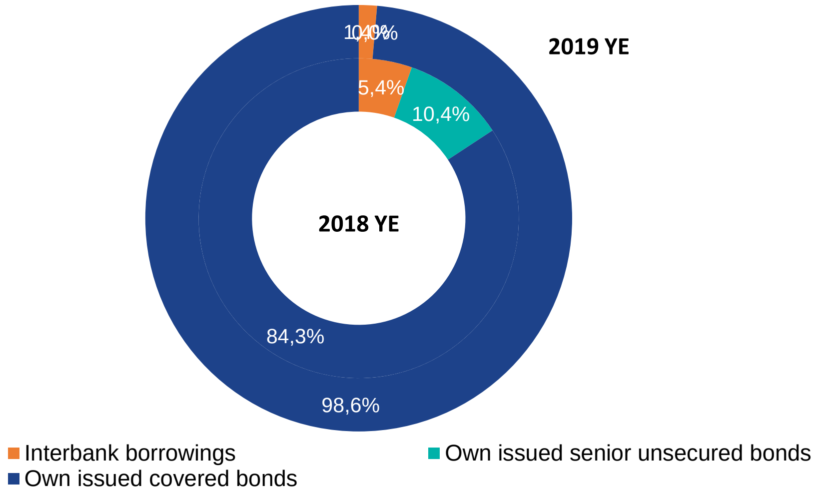
5. Funding & Liquidity

1. Asset composition and funding structure (TMB standalone HAS)

Interest earning assets



Funding structure



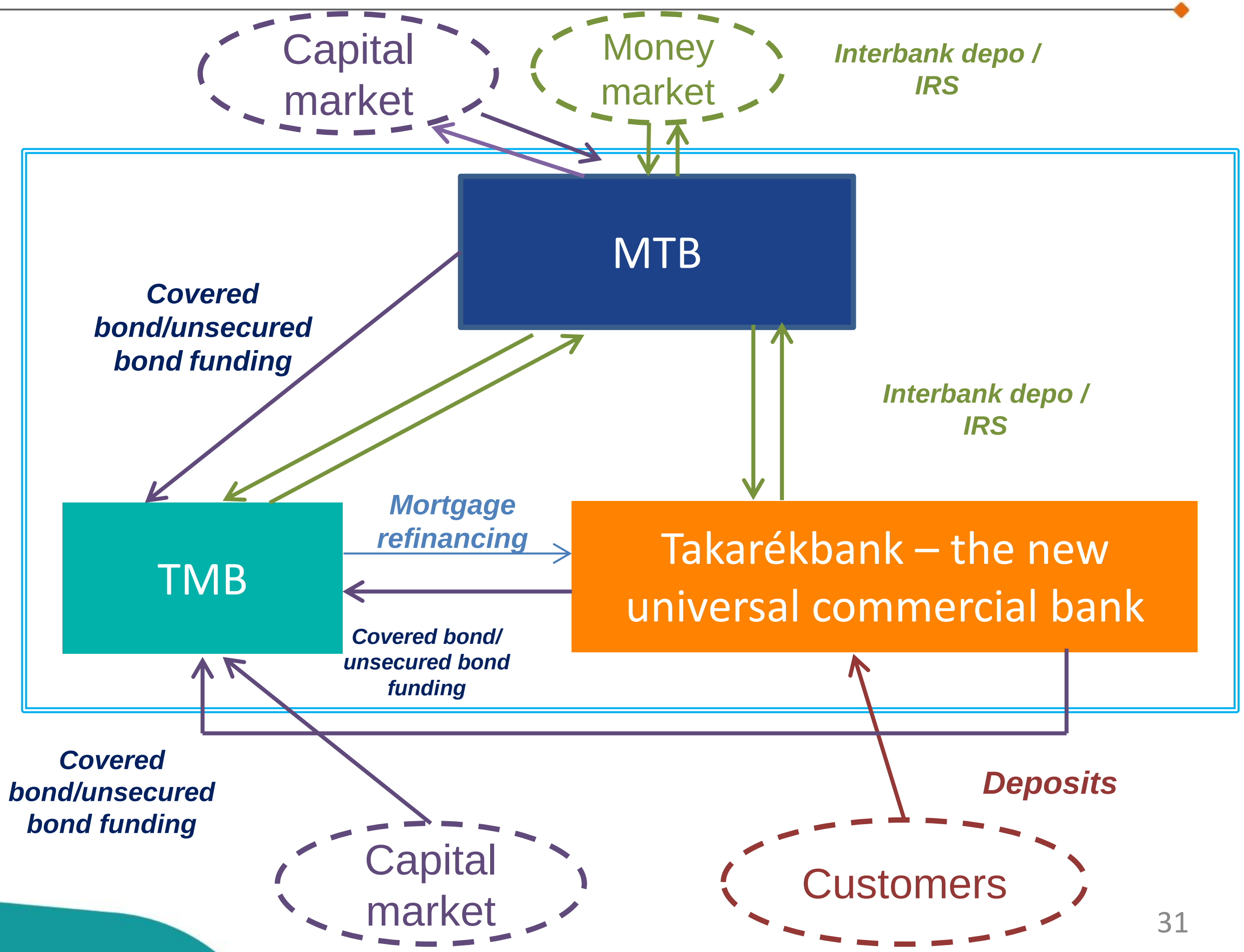
As a pure refinancing mortgage bank the funding structure will not be significantly changed:

- CB issuances provide the main source of wholesale funding
- TMB's 6M liquidity buffer and min 2% OC obligation creates structural need for unsecured funding
- Decreasing volume of MM deals, concluded exclusively with MTB

TAKARÉKCSOPORT

2. Funding relationship within Integration

- Centralized liquidity management and funding strategy within the Integration
- MTB as the only entity raising MM funding in the Integration from the market
- TMB, as a specialized institution provides refinancing services and covered bond funding to the Integration and partner banks
- Takarékbank, as the new universal commercial bank is the primary deposit collectors in the Integration
- Members of the Integration conclude MM and IRS deals exclusively with MTB
- Centralized fund transfer pricing model covers TMB's covered bond funding cost



3. Long-term funding strategy

- TMB focuses primarily on covered bond issuance vs unsecured bonds
- TMB acts the issuer entity to secure MFAR compliance on Integration level
- Target maturities for covered bond issuances: 3Y and longer skewing to 5Y-10Y, depending on market depth, floating rate covered bond issuance also intensifies
- Current lending environment implies no major FX funding need, as retail lending is practically only in HUF. However, FX lending in commercial mortgage loans is an option to extend the cover pool.
- HUF 20-40bn structural (unsecured) funding need due to OC and liquidity buffer needs: funded from short-term intra-group MM funding and unsecured bond issuance

Covered bond issuance frequency : Monthly, Bi-monthly

Spread on fixed rate (typically 5Y)issuance: swap: +70 - 80 bp

Spread on floating rate issuance: BUBOR+ 70-80 bp

Tenor: 3-5-7 year

Volume per auction/subscription: up to HUF 2-10bn

Distribution: through 4 mandated dealers, auctions: BSE

Annual average HUF 60-70bn (driven by refinancing partners)

Yearly update of the Base Prospectus

Supervisory approval is needed

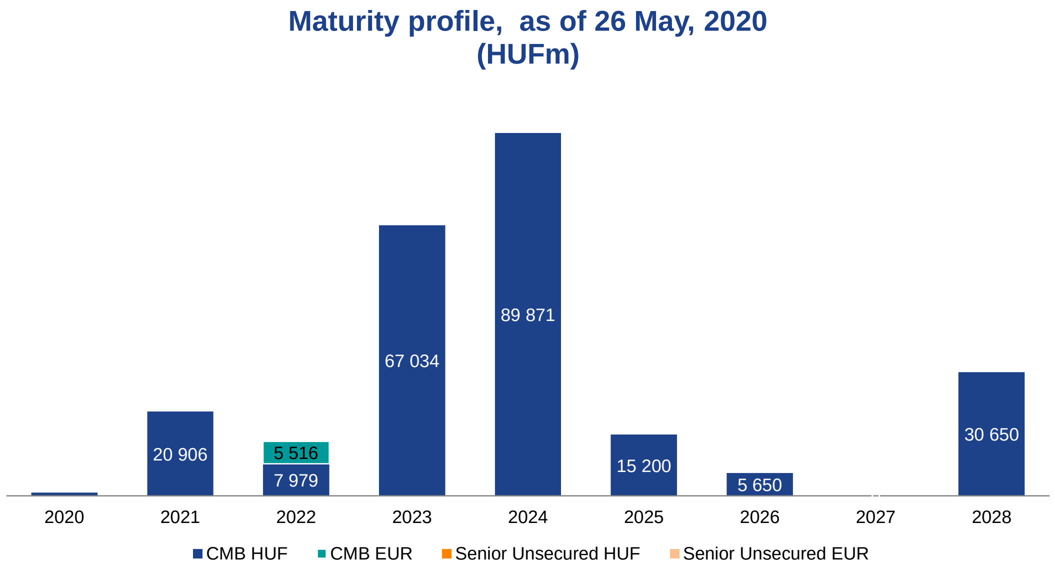
Based on Hungarian and EU regulations

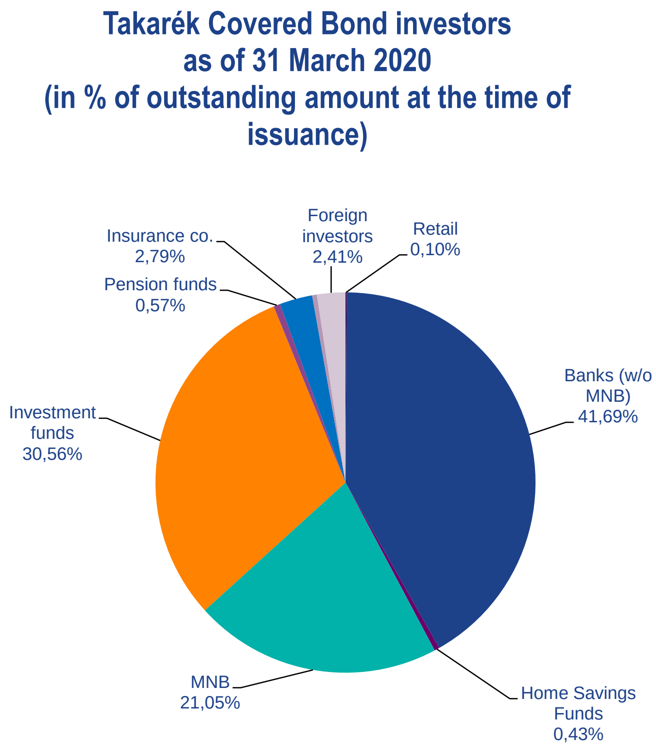
Denomination: CHF, EUR, HUF and any other European currency outside the Eurozone

Total volume: HUF 200bn, optional listing

Eligible security types under program: covered bonds and senior unsecured bonds

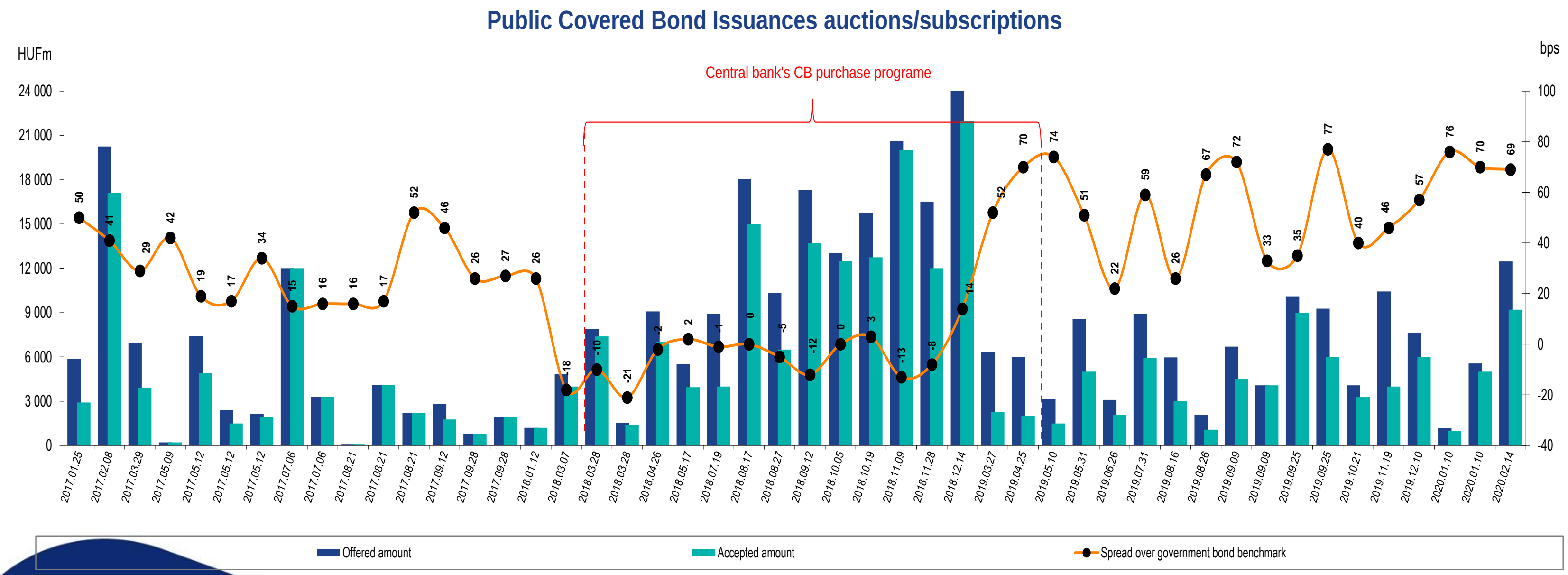
4. Covered bond and unsecured bond maturity profile and investor base





5. Covered bond issuance: volumes and spreads vs HGB benchmark

2019: regular public tenders, modest increase in spreads vs HGB
2020: New central bank mortgage bond purchase program could stabilize covered bond spreads vs government bond benchmarks at lower levels



6. Financial information

Financial performance I. - major indicators (TMB standalone, IFRS)

in HUF million	31/12/2019	31/12/2018	Change (%)
Balance sheet total	342,897	333,787	2.7%
Financial assets valued at amortized costs	294,526	256,012	15.0%
o/w gross loans	*275,801*	*246,407*	*11.9%*
Financial liabilities valued at amortized costs	269,895	262,393	2.9%
o/w debt-type securities issued	*265,929*	*247,797*	*7.3%*
Equity	65,043	62,185	4.6%
Profit/Loss before tax	2,446	4,921	-50.3%
Full-year profit/loss	2,140	4,680	-54.3%
Total comprehensive income	2,858	4,574	-37.5%
ROAA (return on average assets, %)	0.6%	1.5%	-0.8%-pt
ROAE (return on average equity, %)	3.4%	7.8%	-4.4%-pt

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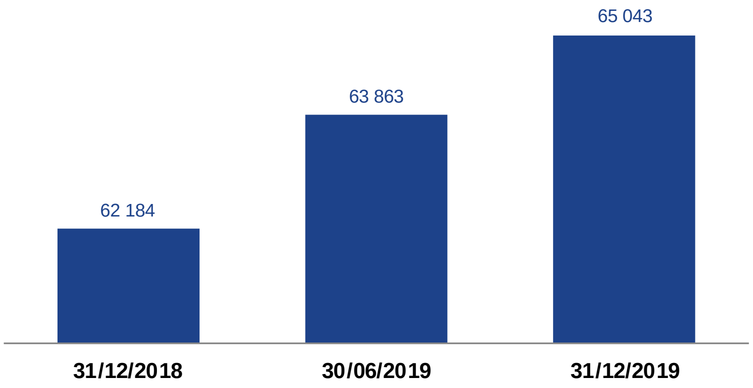
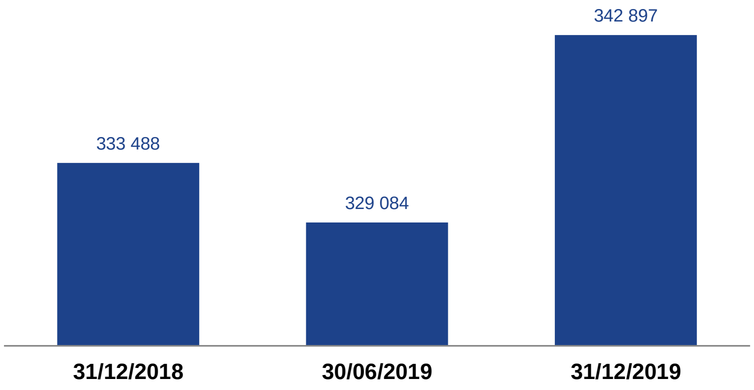
Financial performance II. – balance sheet, P&L (TMB standalone, IFRS)

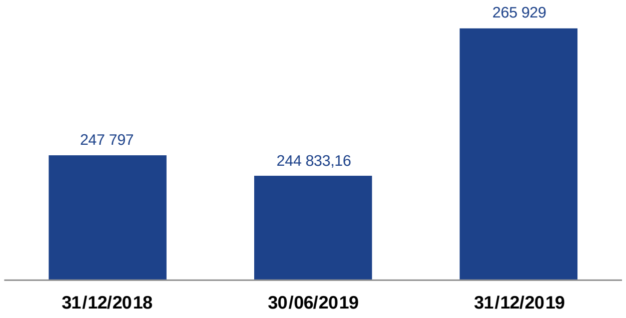
Shareholder's equity (HUF million)



Balance sheet total(HUF million)



Securities issued (HUF million)



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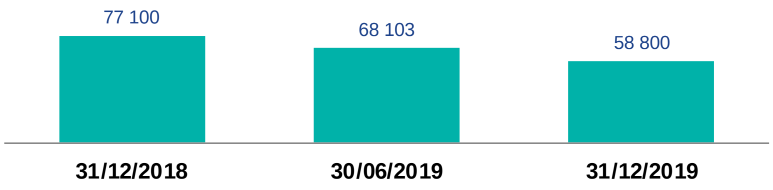
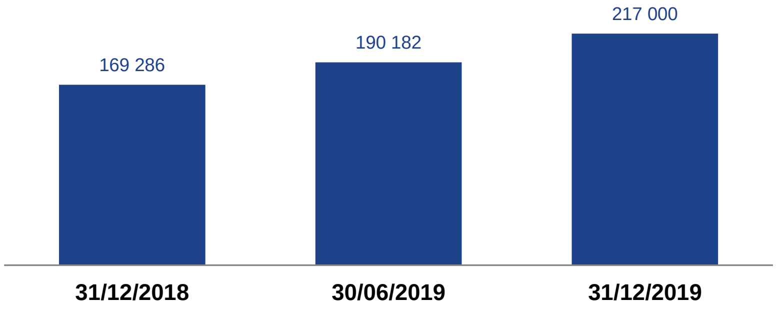
Financial performance III. – balance sheet, P&L (TMB standalone, IFRS)

Own originated loans (millió HUF)



Refinanced mortgage loans (HUF million)



*Own originated loans are not granted from April 1, 2018

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Capital position (consolidated,Takarék Group)

- According to the resolution no. H-EN-I-36./2017 (on 1 January 2017) the National Bank of Hungary authorized Takarék Group to apply individual exemption and terminated the obligation for compliance with sub-consolidated level requirements.

HUF milllion	31 December 2019	31 December 2018
Own Funds	269,529	244,955
TIER 1 Capital	269,529	244,955
Common Equity TIER 1 Capital	269,529	244,955
	31 December 2019	31 December 2018
ROAE (return on average equity %)	3.3	6.3

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APPENDIX

MNB’s measures to mitigate the negative economic effects of COVID-19 – steps affecting the Issuer

1) Moratoria

The National Bank (MNB) and Hungarian Government announced a moratorium for all mortgage and corporate loans until 31st December. This represent a payment holiday for principal, interest and fees under credit facilities, loans and financial leasing. The moratorium applies to all loans existing at midnight 18 March. Upon expiration of the moratorium, unpaid installments must be paid by customers, and the measure does not relieve them of debt service as a whole. As customers will also pay the arrears with the end of the transitional measures, the moratorium is not expected to have a material negative impact on the profitability and capital position of financial institutions.

The MNB also called to credit institutions to apply stricter consumer protection rules, specially, in relation to opening hours, consumer notification requirements, ATM operations and complaint handling.

The banks have to temporarily make personal loans with an interest rate limit. Interest rate paid by clients can not exceed the central bank base rate by more than 5 pps.

2) Restart of MNB’s mortgage covered bonds purchasing program

The main aim of MNB’s interventions is to stabilize the covered bond market.

Practically the same requirements as in 2018: the MNB intends to purchase covered bonds on the primary and secondary markets, especially if it is

- Fix rate
- Issued through public auctions at the Budapest Stock Exchange, listed
- The majority (80%) of the cover pool is retail housing mortgage loans
- The volume to be issued is publicly announced in advance
- Firm market making

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Regulatory framework - Act no. XXX of 1997 on mortgage banks and mortgage bonds (Jht) I.

- Special status of covered bond investors in case of insolvency
- Special treatment of claims from mortgage bonds if liquidation process starts
- Assigned cover pool administrator to manage claims in case of insolvency
- Cover pool assets eligible to meet covered bond investors' claim defined by law
- Special NBH supervision
- Increased transparency

- Mortgage bond owners enjoys a special status versus other creditors in the case of Issuer's insolvency

- To ensure that claims arising from mortgage bonds and derivative transactions recognized as cover, courts will also assign an administrator of cover in addition to the liquidator. Administrator of cover satisfies claims arising from mortgage bonds.

- Claims arising from mortgage bonds and derivatives recognized as cover shall not become due and payable at the starting day of a liquidation process against a mortgage bank. (Section20 (3))

- In the event of liquidation the following assets may be used exclusively for the satisfaction of obligations owed to holders of mortgage bonds and counterparties to derivative transactions after the settlement of the cover pool administrator's fee, the cost incurred by the registration and satisfaction of particular claims specified in the act (Section 20 (5)):

a) ordinary and supplementary cover recognized in the register of cover at the starting date of liquidation

b) the part of the ordinary cover in access of the limit specified in Section 14 (7) of the Jht., and not recognized as cover, and the portion of liquid assets held but not recognized as cover by the mortgage bank at the starting date of liquidation, which comply with the requirements in the Jht. in respect of supplementary cover.

- Pursuant to the Jht. NBH is obliged to have an inspection at mortgage banks on annual basis (Section 22).

- Mortgage banks are obliged to publish the value of outstanding mortgage bonds and the cover pool on quarterly basis (Section 18).

Regulatory framework - Act no. XXX of 1997 on mortgage banks and mortgage bonds (Jht) II.

The cover system

- Mandatory over-collateralization: Mortgage banks shall at all times have sufficient cover assets of a value higher than the sum of the face value of and the interest on outstanding mortgage bonds. Cover assets may include ordinary and supplementary covers.

- Strict LTV rules for include loans into the cover pool:

- Mortgage loans and repurchase price of refinancing mortgage loan can be recognized as ordinary cover up to the 60% of the mortgage lending value.
- If the property accepted as collateral is residential property, the unpaid principal balance or the repurchase price of mortgage loan shall be recognized as ordinary cover up to 70% of the mortgage lending value.

- Supplementary cover asset to be raised to ensure sufficient coverage : In the event of mortgage bank falling short of ordinary collateral mortgage banks are obliged to have supplementary cover including assets defined in Jht. 14.§ (11).

Strict coverage ratios

- Mortgage banks have to ensure the existence of cover assets for their mortgage bonds at all times in terms of both nominal and in present value terms.

- The ratio of supplementary cover can be maximum 20% from the third calendar year of operation.

Independent Coverage Supervisor

- Registration and the current level of cover assets and mortgage bond issues are monitored and supervised by an independent coverage supervision appointed for the protection of investors after the NBH's approval.

Regulatory framework - Resolution Law

- In accordance with Article 58 (1) (c) point of the Act on the Bank Recovery and Resolution (Act. no. XXXVII. of 2014) creditors' bail-in does not include liabilities from covered bonds and mortgage bonds, up to the extent of the coverage. The above means that authorities responsible for the bail-out can call for creditors' bail-in, but in case of liabilities emerging from covered bonds, only the amount exceeding the coverage of the covered bond is available for bail-in.

- The Part Four (Large exposures) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms relates to refinancing activity: Article 400 provides exemptions to covered bonds on limit of large exposures. Pursuant to the Act on the Credit Institutions and Financial Enterprises (Act. no. CCCXXXVIII of 2013) the above mentioned exemptions in Hungary will be valid by end of 2028.
- Article 402(3) of the above mentioned Act, on exposures arising from mortgage lending: An institution may treat an exposure to a counterparty that results from a reverse repurchase agreement under which the institution has purchased from the counterparty non-accessory independent mortgage liens on immovable property of third parties as a number of individual exposures to each of those third parties, provided that all of the following conditions are met:i) the counterparty is an institution ii) the exposure is fully secured by liens iii) the institution becomes beneficiary of the claims that the counterparty has against the third parties in the event of default, insolvency or liquidation of the counterparty iv) the institution reports to the competent authorities
- Hungarian mortgage bonds comply with the requirements of Article 52(4) UCITS as well as with Article 129(1) and with Article 129(7) of CRR
- Article 125 of CRR regulates the exposures fully covered by a real estate mortgage. Pursuant to the refinancing agreements of TMB the fulfillment of the requirement of this Law is obligatory for the partners .

Mortgage Funding Adequacy Ratio (MFAR) to decrease the maturity mismatch in the mortgage lending market

MFAR increases the role of mortgage banks:

New mortgage banks were established (Erste Bank, K&H Bank – 5 Hungarian mortgage banks).

Banks with small/medium-sized balance sheet have the option to re-finance their household mortgage loan portfolio with existing mortgage banks.

Further business opportunity for TMB as it could expand its re-financing business in terms of both volumes and number of clients.

For members of the Integration MFAR has to be fulfilled on consolidated level.

Calculation and reviews of MFAR

The regulation aims at increasing financial stability by reducing the maturity mismatch arising from the different maturity profile of long-term household mortgage loans and the banking sectors' liability side. 20/2015. (VI. 29.) NBH Decree

MFAR = HUF liabilities with a remaining maturity of more than 3 year -covered bonds or refinancing loans - (more than 3 year from October 1, 2019) backed by household mortgage loans / net stock of residential HUF mortgage loans with an original maturity longer than 1 year.

Minimum required level of the ratio: 15% (quarterly reporting), obligation effective from April 1, 2017 and 20% and 25% effective from October 1 2018 and October 1 2019 respectively

Issued mortgage bonds, mortgage refinancing loans, re-purchase price obligation related to selling independent mortgage lien, asset-backed securities that are (i) denominated in HUF, (ii) not held by the member of the same group; (iii) having a minimum original maturity of 3 year (from October 1, 2019)

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Harmonization of covered bond regulations in the EU

The current Hungarian regulation is mainly compliant with the planned new requirements, however there must be some amendments in the Mortgage Act. The most important changes may be the following:

- Minimum mandatory OC 2-5% (in Hungary only voluntary or contractual OC exists) (129 CRR). The CRR regulation will be amended accordingly. (Member state competence)
- Art. 7 Assets located outside of the European Union (Member state competence)
- Art. 8 Intragroup pooled covered bond structures (Member state competence)
- Art. 9 Joint funding (Member state competence)
- Art. 16 Liquidity buffer (Mandatory element)
- Art. 17. Soft bullet (Member state competence)

Timeline : Ratification in April 2019 + 1,5 year for implementations and + 1 year of the effectuation

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