INVESTOR PRESENTATION

Takarék Mortgage Bank Co. Plc.

March 31, 2021

TAKARÉKJELZÁLOGBANK

CONTENT

ABBREVIATIONS

TMB: Takarék Mortgage Bank Co. Plc

MTB: MTB Magyar Takarékszövetkezeti Bank Ltd.

Takarekbank: Universal commercial bank of Takarek Group

Integration Organisation, IHIKSZ (CBICI): Central Body of Integrated Credit Institutions. Members: MTB, Takarekbank, TMB, TESZ and EHPSZ

Takarék Group: MTB, Takarekbank, TMB and other subsidiaries of MTB, Integration Organisation, Common Equity Fund, TESZ

MFAR: Mortgage Funding Adequacy Ratio

NBH: National Bank of Hungary

CBICI: Central Body of Integrated Credit Institutions

OBA: National Deposit Insurance

Jht.: Act on Mortgage Bank and Mortgage Bonds

HCSO: Hungarian Central Statistical Office

GDMA: Government Debt Management Agency

HBA: First Domestic Voluntary Deposit Insurance and Institutional Protection Fund of the Credit cooperatives

TESZ: Takarék Unified Cooperative

EHPSZ: First Domestic Financial Service Developing Ltd

HBH: Hungarian Bankholding

HBG:Hungarian Bankholding Group

1. THE GROUP

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 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 credit institution sector *(formerly „saving cooperatives sector", from 2020 "integrated credit institutions sector")*

- A new body has been incorporated: Organisation of Cooperative Credit Institutions *(from 2020: "Central Body of Integrated Credit Institutions")*
- New principles of liabilities have been introduced (cross guarantee)
- MTB has become the central bank of the integration *(from 2019: "the business governing entity")*

2018-2020

Integration, mergers

- By 2017 the number of Cooperative Credit Institutions (CCIs) *(from 2020: "integrated credit institutions")* are significantly decreased through the mergers of 52 CCIs. 12+3 regional CCIs, Takarék Commercial Bank (TCB) and Takarék Mortgage Bank remained.
- In 2019 a **new commercial bank** (Takarékbank) **was established by the merger of** the remaining **12+3 CCIs, TCB and MTB's portfolio transfer.**
- From **July 2020, Takarékbank operates with a unified IT system**. A **7 year long integration process has been completed** as planned.

2021

Hungarian Bankholding Group

- **Takarék Group became the member of Hungarian Bankholding Group** in December 2020, along **with MKB and BB,** thus forming by far the **2nd largest banking group in Hungary.**
- According to the new 5 year Hungarian Bankholding Group strategy**, Takarékbank, MKB and BB are planned to be merged in 2023.**

Hungary's 2nd largest banking group has been established by the share transfer of the key owners of MTB, MKB Bank and Budapest Bank to Hungarian Bankholding

MKB BANK | TAKARÉK | BUDAPEST BANK

1 Starting a strategic cooperation ✓

- A **strategic cooperation was formed** between Takarék Group, MKB Group and Budapest Bank Group in May 2020 by signing a letter of intent **to establish a joint financial holding company** and to **examine and prepare** the opportunity of the **establishment of a new banking group** with significant market power.

2 Establishing a new banking group (Hungarian Bankholding Group) after a thorough analysis ✓

- The banks - with the involvement of international advisor companies - carried out legal, economic and financial due diligence, formed a strategic vision and assessed the potential synergies resulting from the operation of the three banks as a banking group.
- In October the **key owners of the 3 banking groups signed an investment and shareholders` agreement** as a confirmation of their former letter of intent and **decided to transfer their shares into Hungarian Bankholding.**
- **In December, after the approval of the National Bank of Hungary,** the in-kind contribution was **completed**.

3 Planning detailed strategy and merger, beginning of exploiting synergies, coordination of operation ✓

- Hungarian Bankholding Ltd. commenced its effective operation. **During 2021** it will **develop the detailed merger roadmap, milestones** and **comprehensive business strategy for the banking group**, with the participation of international consulting firms.
- **For the time being, the banks** will retain their legal status and **still operate as separate entities** with **independent brands until their integration. Exploiting synergies** resulting from the joint operations and **coordination of their operations on both the business and operational side has been started.**

HUNGARIAN BANKHOLDING GROUP

Size of the new banking Group (2020[1])

- **2nd biggest** banking group in Hungary with **HUF 8 400 Bn assets** (16% market share)
- **HUF 5 400 Bn deposit** portfolio (18% share)
- **HUF 3 800 Bn loan** portfolio (16% share)
- **2.5 million customers**
- **920+ branches** (49% market share)
- **Market leader in corporate, agriculture** and **leasing** segments

Activities of the Hungarian Bankholding Ltd.

- **Strategic group management,**
- **Legal and prudential control,**
- **Merger control and management of the three banks**

Ownership structure of the Bankholding Ltd.

- **37.69%: MTB** Ltd. owners
- **31.96%: MKB** Bank Plc. owners
- **30.35%: Hungarian State** (through Corvinus International Investment Ltd.)

✓ Completed action ✓ Ongoing action

[1] Preliminary, aggregated values

In 2021 Bankholding will develop the detailed merger roadmap and business strategy for the banking group, while the banks will operate separately and running the daily business

Roles and responsibilities within the Hungarian Bankholding Group (HBG) in 2021

BANKHOLDING

- **Owner of the 3 banking groups**
- **Strategic management of the banking groups** based on group-level regulations, monitoring and strategy
  - **Strategic control** (e.g.: group level strategy creation, business/ capital/ liquidity planning, controlling and prudential reporting)
  - **Legal and prudential control** (e.g.: group level regulation, risk management guidelines and providing compliance with National Bank of Hungary requirements (as the responsible for consolidated compliance of the banking group))
- **Merger control and management** (fusion planning and implementation)

BANKS (MKB, BB, TAKARÉK)

MKB BANK | BUDAPEST BANK | TAKARÉK

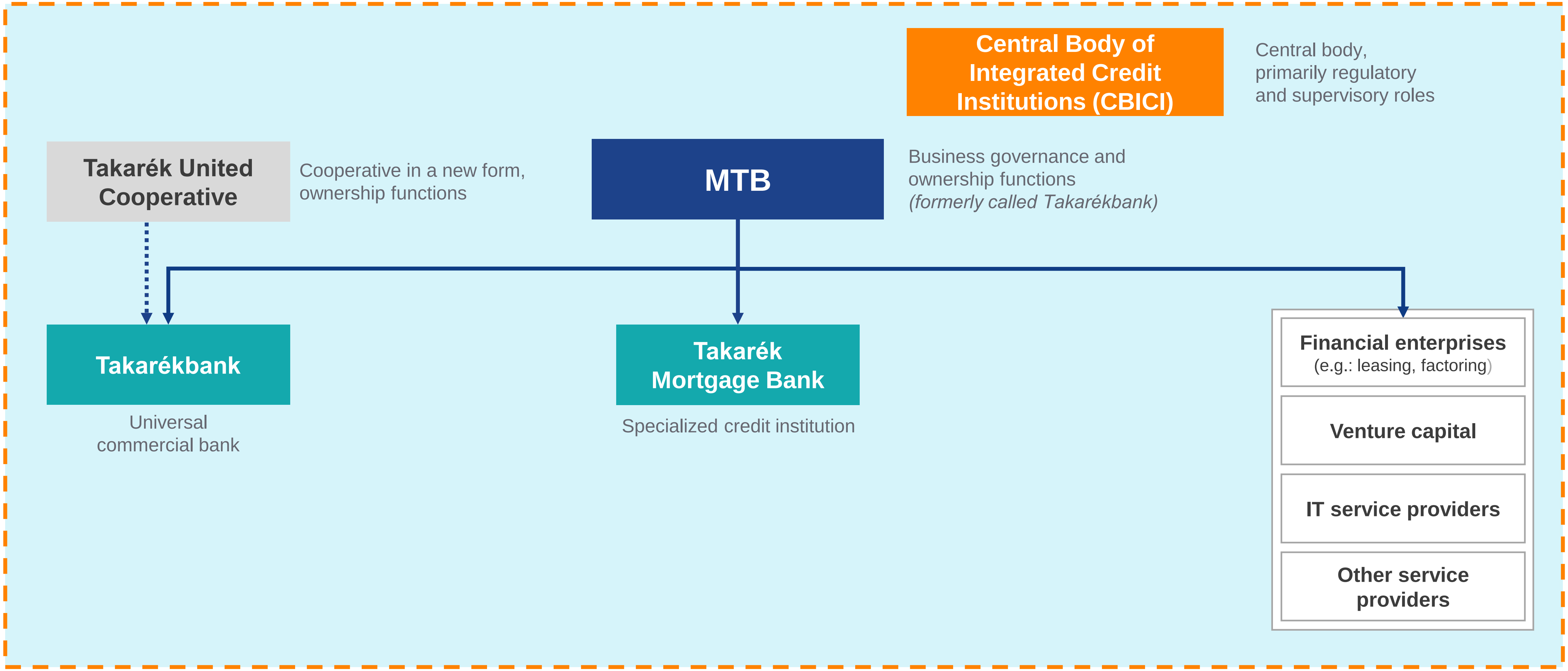
- The banks will retain their legal status and **will still operate as separate entities** with independent brands
- **Responsible for the daily operation**
- **Business counterparty** for partners and clients, individual lending decisions
- **Business plans will be harmonized**
- **Quick win synergies** will be exploited

CBICI (IOCCI), MTB

- **Bankholding carries out the strategic mgmt.** of the banking groups, while **CBICI exercises its powers and activities set out in the legislation** (Szhitv.) within Takarék Group in accordance with it, **to ensure uniformity, coherence and consistency.**
- **MTB remains the business governor entity** of Takarék Group (with decreased significance)
- The **capital of CBICI is part of the consolidated capital** of HBG and can be included in the **capital adequacy ratio**. Albeit it **can be used only by the members of the Integration**, within the protection scheme. The possibility of extension of its use to the other 2 banks (possibly by joining the Integration) will be analyzed during the fusion process.
- The **cross-guarantee system operates unchanged** within the Integration. **BB, MKB and Bankholding are not included**.

Priorities in 2021 are to **start the operation** in the holding structure and to **develop the detailed merger roadmap and comprehensive business strategy for the banking group**. **In the following years** the **preparation for the merger** will start, meanwhile **synergies will be increasingly exploited**, **more and more activities will be centralized in Bankholding** (supporting areas) and the **optimization of the subsidiaries** will commence.

Standalone management structure of Takarék Group



Takarék Group
Integration of Credit Institutions (Integration)
Deep-dives in following slides

2. COMPANY OVERVIEW, OWNERSHIP & ORGANIZATION STRUCTURE, STRATEGY

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**

- Best Structured Borrower – 2004, Euromoney
- Best Companies in Central & Eastern Europe – 2005, Euromoney
- Bank of the year in 2010
- Debt Securities Issuer of the Year award won 9 times in the last 17 years

‚Budapest Stock Exchange Mortgage bond issuer of the year in 2019'

22-year activity on local and international capital markets

- More than HUF 1900bn total issue of covered and unsecured bonds since 2002, nominal amount of issues reaches HUF 60-130bn on annual basis, 16-20 transactions per year
- Strong know-how basis: fundamentals of
  - mortgage covered bonds,
  - unsecured bonds,
  - rating process,
- Local and international issue programs updated in every year since 2002,
- Established investor base through primary and secondary market presence, good personal relationship with local institutional investors and roadshows
- Innovator in product development:
  - CPI-linked bonds,
  - structured bonds,
  - other floating rate type bonds,
  - tailor made structures for institutional investors

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: MTB is the main owner

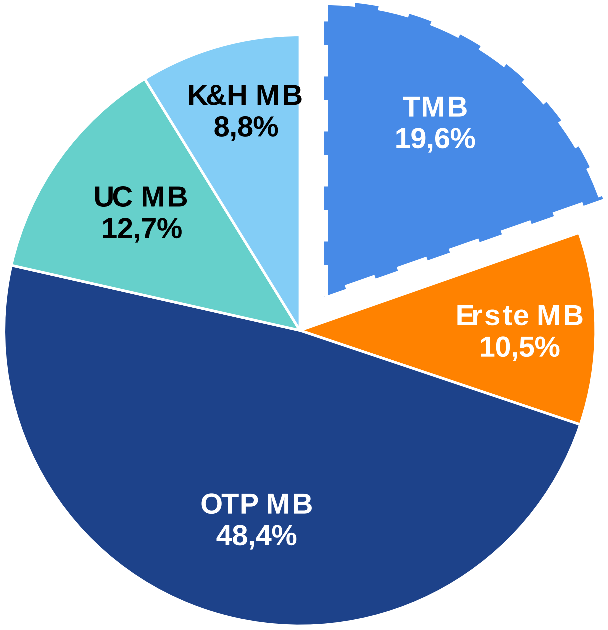
2017/ Satellite institutions are directly subordinated to MTB.

April 2018 / Pure Refinancing Mortgage Bank

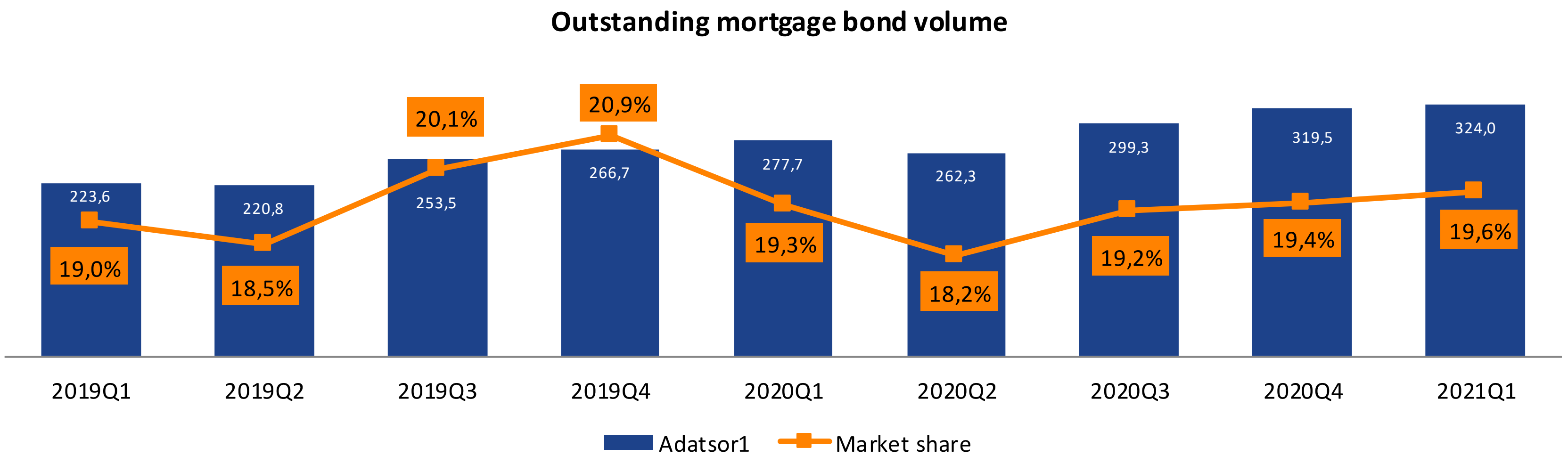
October 2019 / MTB’s binding offer to TMB for buying the 51% ownership of the Takarék Commercial Bank

Market position - dominant player on the local mortgage refinancing market

Market share of local mortgage banks based on issued mortgage bond volume (2021 Q1)



18%-20% market share in outstanding covered bonds in the local market



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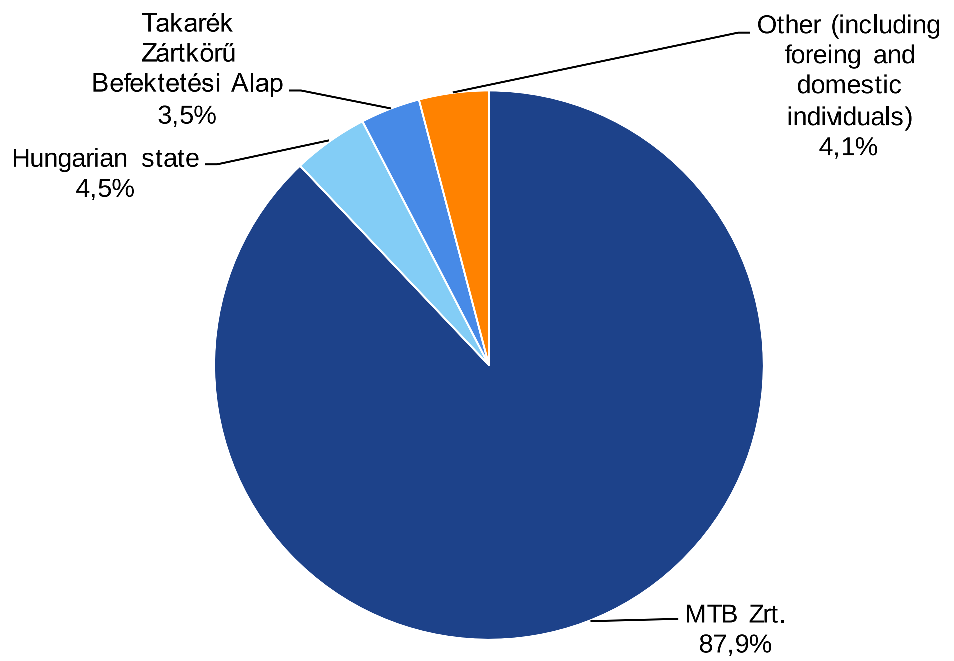
TMB’s Ownership structure – Share of MTB Zrt. is close to 90%

Takarék Mortgage Bank Co. Plc. ownership stucture (21.04.2021)



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

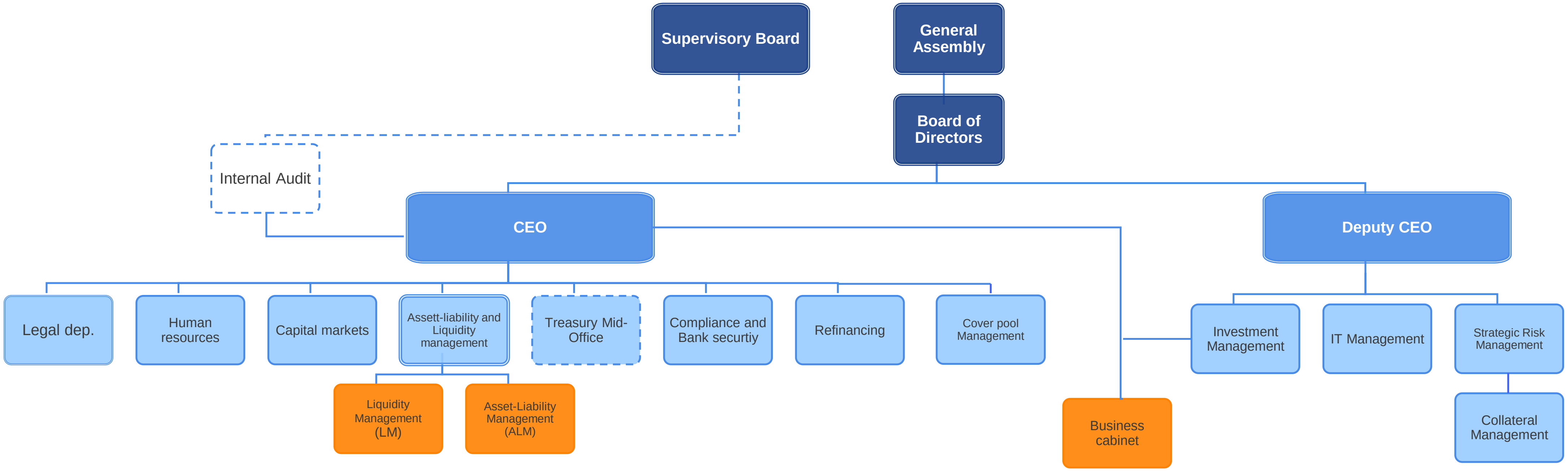
Attila Mészáros: internal member (MTB CRO since 11 October 2018

Gábor Gergő Soltész: external member since 16 November 2016

Éva Hegedűs: external member since 27 October 2018

Pál Sass: external member since 1st of October 2019

Organizational 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 (SLA):

- HR, IT/data warehosue, PR, product development
- Legal, Accounting/taxation, controlling, reporting, internal audit
- Banking Security services (property, IT, etc.)
- Risk management, modeling, capital planning, investment management
- Back-office

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Business strategy and new services

Business strategy

- Simplified business model: mortgage refinancing and mortgage bond issuance only
- Expansion of mortgage refinancing: Providing high quality services for partner banks outside Takarék Group and intra-group as well to increase market share
- Optimization: modernization a simplification of refinancing process, automatization of property valuation, improving the effectiveness and security of collateral pool management, IT and ALM
- Expansion of collateral asset pool: Resuming the refinancing of commercial mortgage loans
- Establishment of green financing and ESG concept, new products
- Enhancement of profitability

➢ Raising cheap long-term funds
➢ Expansion and enhancement of covered bond's investor base
➢ Active ALM
➢ Increasing market volumes

New strategic services

AVM

Automatic valuation method: the with the development of the first AVM service on the local market, which has been widely used in Western Europe, TMB intends to counterbalance the impact of narrowing margins in lending

AI

Artificial intelligence: the state-of-the art method is using the most developed data analyzing tools, which provides opportunity for more accurate estimation instead of the current indice-based valuation

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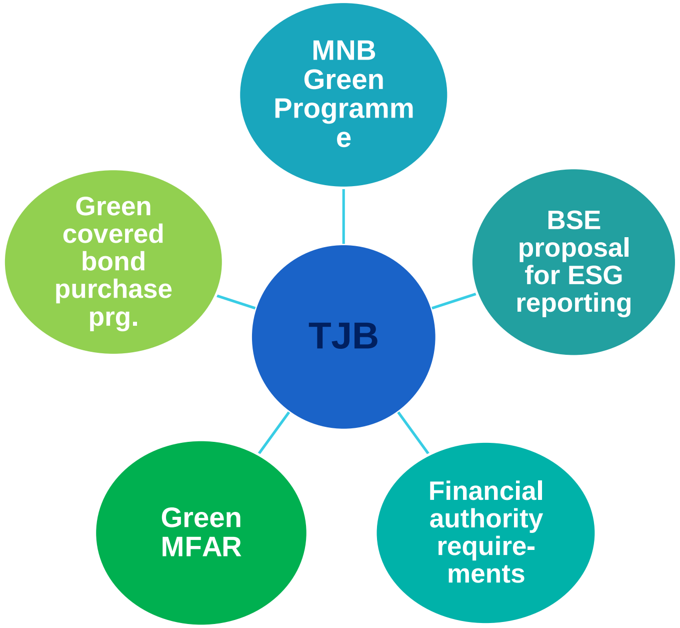
Green and ESG targets

TMB has been focusing on sustainability issues since 2019 and participates actively in Hungarian and international programmes

- Participates in green dialogues initiated by the Magyar Nemzeti Bank about the establishment of green mortgage bond purchase programme and mortgage funding adequacy ratio (MFAR) frameworks.
- Preparation for mapping of the assets side, searching and marking the verified green mortgage loans already existing in the pool is in progress.
- Green Mortgage Bond Committee has been set-up the definition of Green Framework has begun
- Reviews the IT development needs for refinance the proven green loan portfolio
- Explores the potential domestic investor base of the green mortgage bonds.

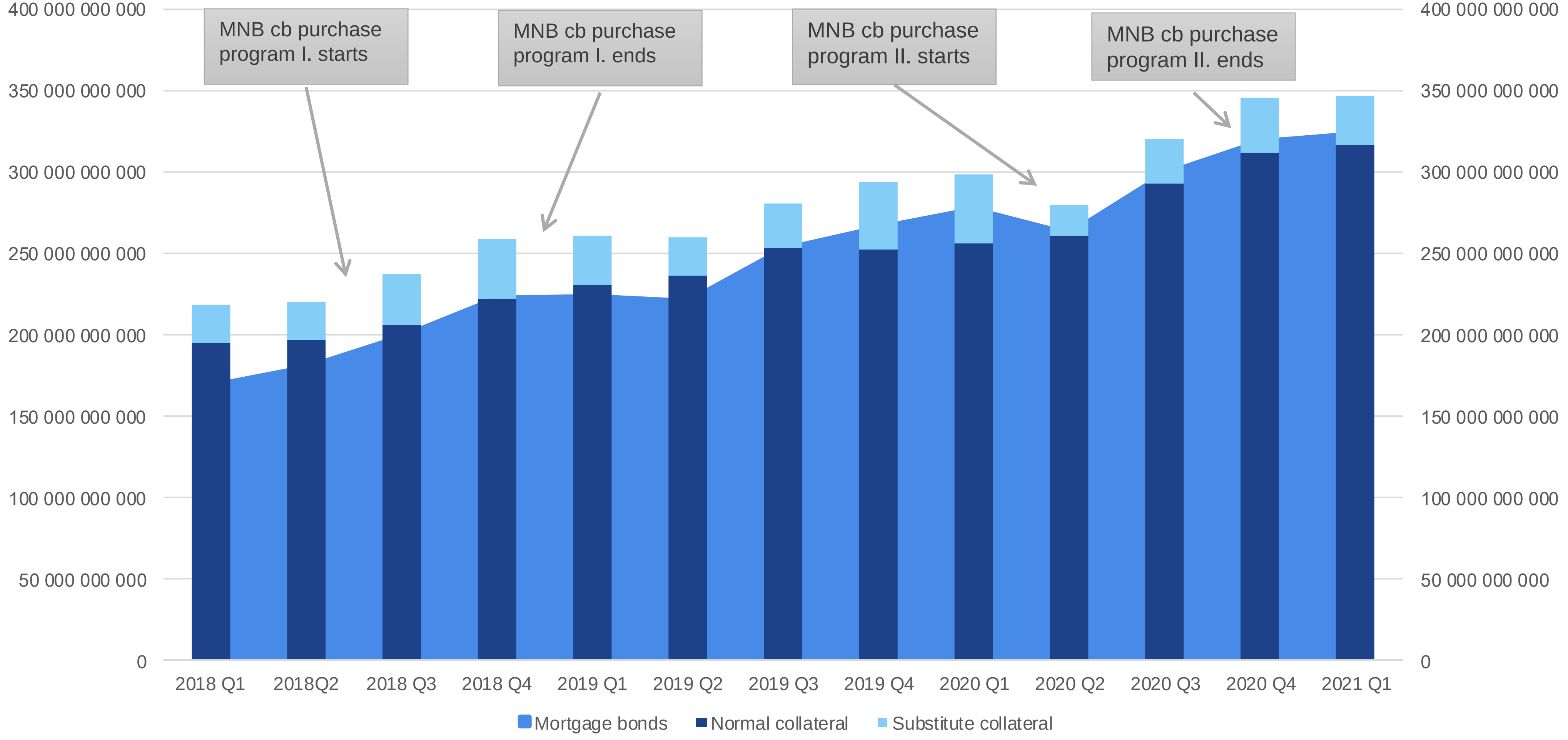


TMB is on its way to build in ESG concept into business and risk management strategies

- Reviewing risk factors associated with climate change
- Analyzing the negative climate change impacts on TMB, as a member of Takarék Group
- Negative effects on the environment and the climate
- Detection of KPI and KRI indicators, risk limits (gap analysis)
- Adapting ESG approach into business models and strategy
- Setting-up a dedicated department responsible for ESG, internal audit
- Reporting, transparency, data services

3. COVER POOL CHARACTERISTICS AND RISK PROFILE

Cover pool composition and coverage



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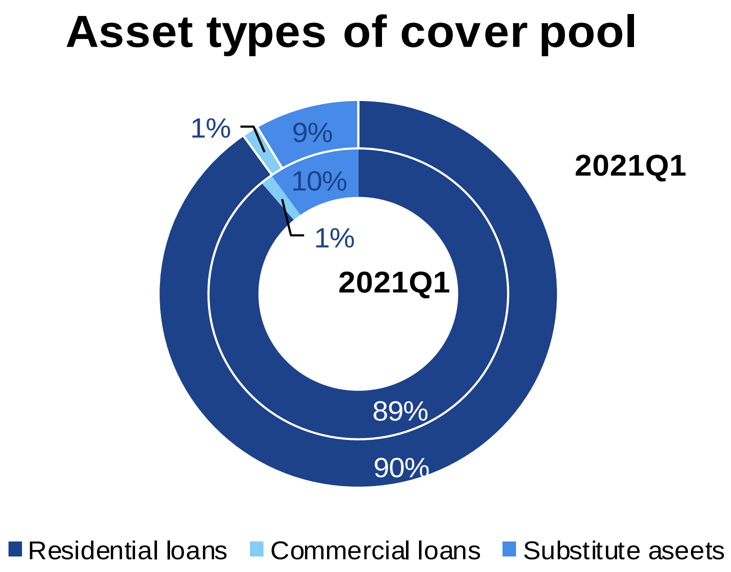
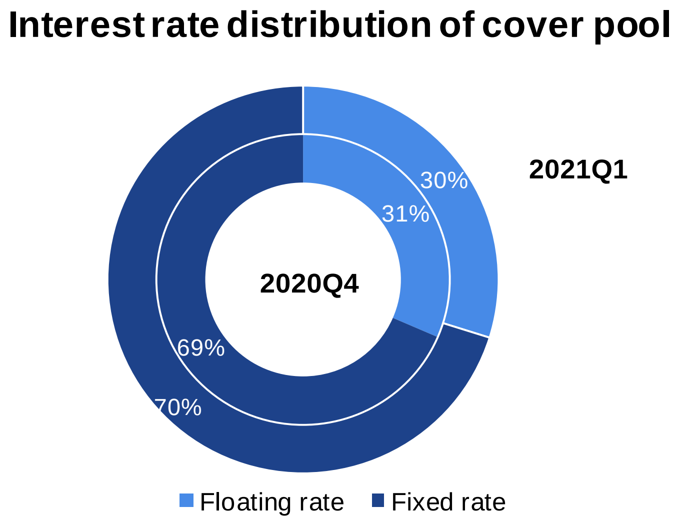
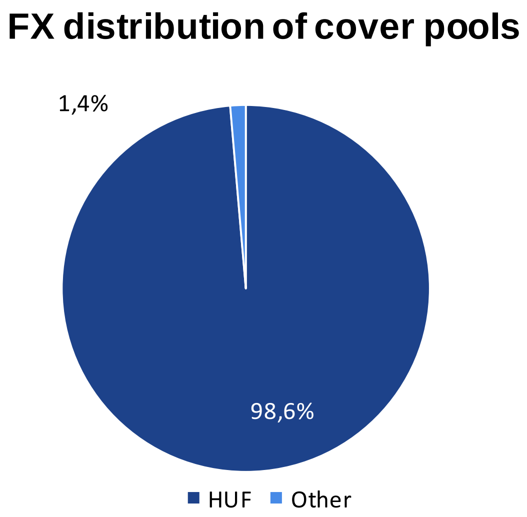
Cover pool characteristics I. (Q1 2021)

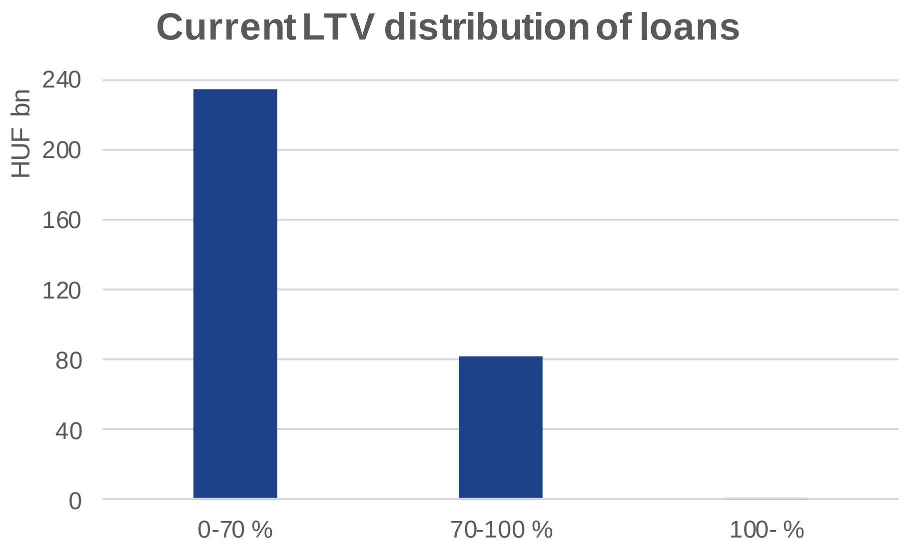


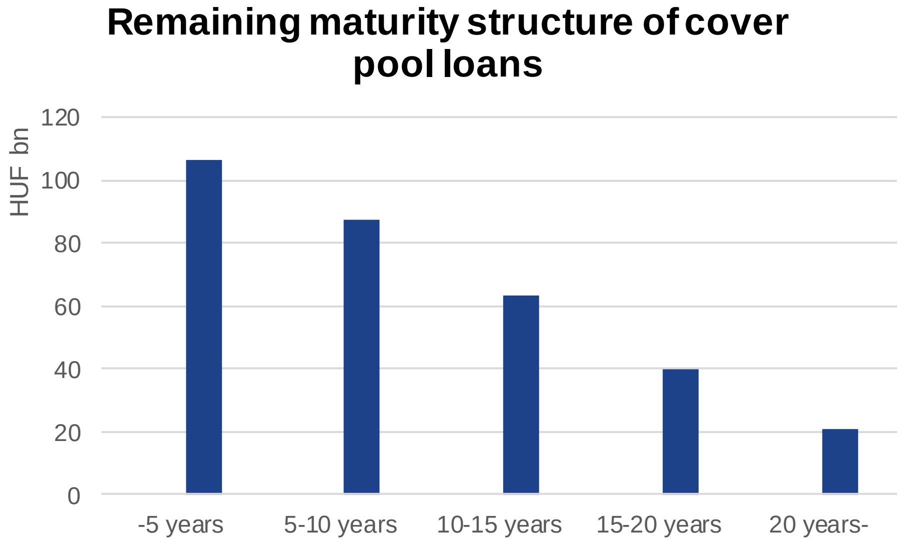


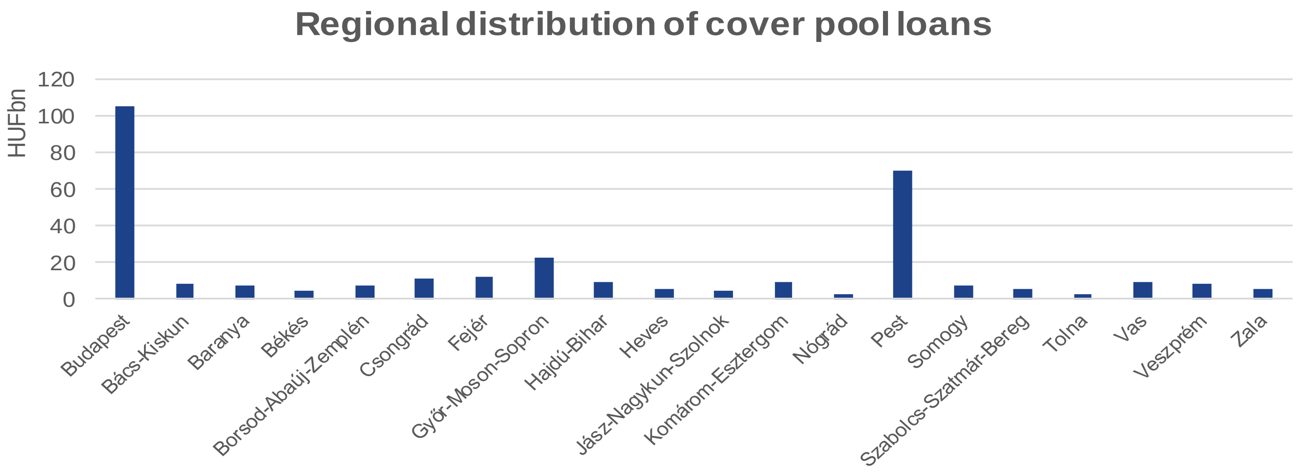


- Residential loans dominate the cover pool,
- Due to the requirements of NBH covered bond purchasing programme the ratio of fixed rate mortgage loans increased since 2018
- Ratio of HUF loans reached almost 100% in cover pool, as FX residential mortgage lending is prohibited

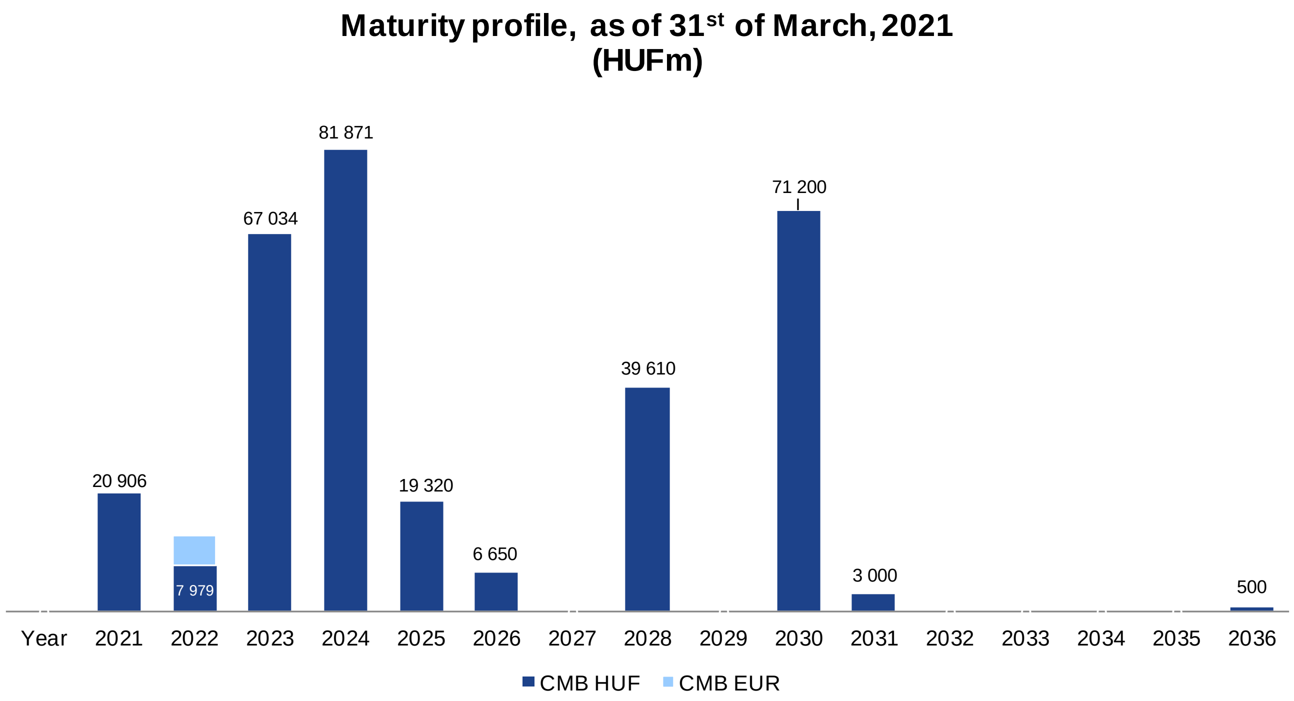
Cover pool characteristics II. (Q1 2021)



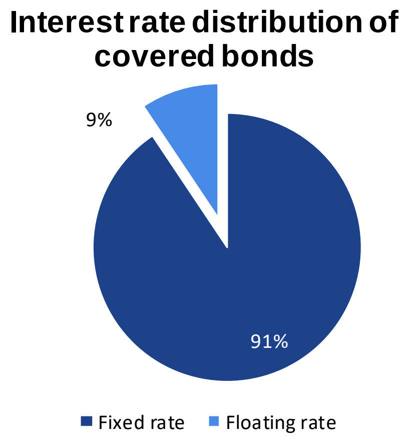


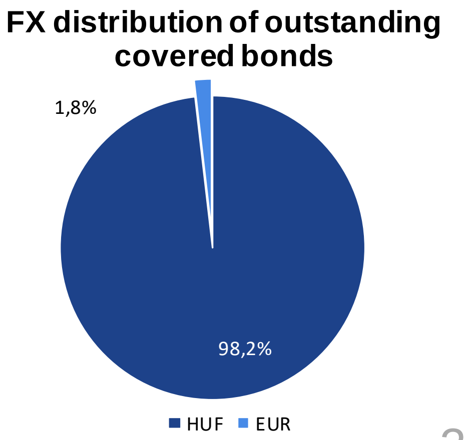


Cover bond portfolio characteristics and rating, Q1 2021



Category	S&P's rating	Date of rating action
Local and foreign-currency denominated covered bonds	BBB stable Investment grade category	2021.06.02.





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Risk mitigating factors of TMB’s covered bonds I.

Instrument and market specific factors

Price quotation

Repo-eligible collateral

Regulatory environment

Hungarian Mortgage Bank Act

Act on Bank Recovery and Resolution

EU Covered Bond Directive

Issuer specific factors

Integration membership – guarantee community

Overcollateralization and 6M liquidity buffer

Rating – investment grade, CRR & RWA

Risk mitigating factors of TMB's covered bonds II.

Regulatory environment

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

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

Cover pool monitor and banking supervision

- Independent coverage supervisor
- Regular supervisory control
- Special transparency requirements

TMB specific factors

- Integration's guarantee community
- Committed ownership
- Rating, CRR and UCITS compliance, four-member market making, consortium
- Pursuant to the internal regulation extra undertakings: minimum 2% overcollateralization and 6M liquidity

4. INVESTOR PROTECTION WITHIN THE INTEGRATION

Investor protection within the Integration I.

System of joint and several liability

- **Szhitv. or Integration Law (CXXXV. of 2013):** The members of the Integration Organization: the integrated credit institutions, the business management organization, the Holding Cooperative and an institution admitted to the membership of the Integration Organization, which qualifies as an Affiliate or has a controlling influence over a member of the Integration Organization, and supervised by the Supervision. The Integration Organization and its members have joint and several liability for the obligations of each other in accordance with the Civil Code. The joint and several liability shall extend to all claims against the Integration Organization and its members, regardless of the date on which they arose. The joint and several liability is the most important investor protection tool.

- **The capital of the Integration Organisation:** i) the equity according to the accounting rules, the contribution of the members, ii) the property of the successor of the First Domestic Voluntary Deposit Insurance (HBA) and Institutional Protection Fund of the Credit cooperatives, iii) the capital of the Fund of Cooperative Credit Institutions and iv) the P&L of the Integration Organization. The members are obliged to pay an annual fee for the integration Organization. The amount is calculated by the General Meeting of the Integration Organization, and it must cover at least the annual operation costs of the Integration Organization.

- **In case of the termination of the membership,** the joint and several liability of the Integration shall not cover the liabilities incurred after the termination date. The leaving member remains liable for the claims against the Integration Organization and its members incurred until the date of the membership’s termination and also the claims 730 days after it leaves. With respect to the former member the competent Authority or the Court - investigating the compliance with the capital requirements - may not take into consideration the former member's equity at the date it leaves the Organization, or in the event of withdrawal, when submitting the letter of intent to the Integration Organization for a period of 730 days from the date of termination of membership.

Investor protection within the Integration II.

Amendment of the Szhitv (Act CXXXV. Of 2013.) or Integration Law

Effects of the amendment of the Szhitv. or Integration Law

- The Parliament adopted the Act LXXX of 2020 (03.07.2020) on the amendment of certain asset management and national finance services, which was promulgated on 14 July 2020 and entered into force on 15 July 2020. The amendment affected the Act CXXXV of 2013 on the Integration of Co-operative Credit Institutions (CCIs) as well.
- The main goal of the amendment of Szhitv. was to reflect in the legal regulation the new institutional structure with fewer members, typically operating in non cooperative form, developed as a result of the transformation of the integration of cooperative credit institutions; moreover the simplification of the supervisory and management system, which was justified by the merger of the individual savings cooperatives into a banking organization and by the cost effective concentration of business process.
- Pursuant to the amendment of the Law, the General Meeting of the Integration decided the amendment of the name and the statutes of the integration. Since 15 July 2020 the new long name of the Integration is: Central Body of Integrated Credit Institutions (CBICI).

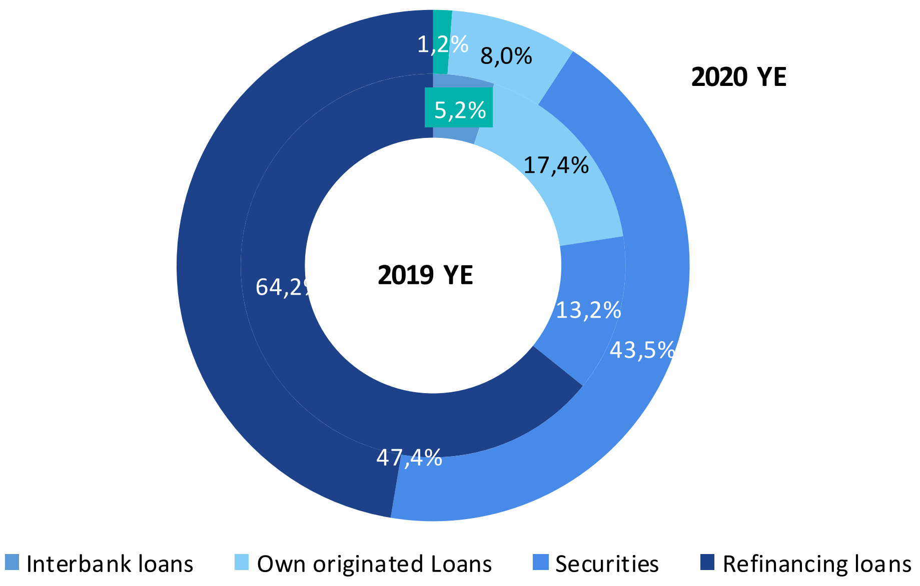
The most important governing members of the Integration

- The **Integration Organization** is an obligatory institutional protective organization, beyond its statutory duty, the organization does not carry out other activity. The Integration Organization adopts obligatory regulations for its members and the Affiliate Enterprises in order to achieve the unified operation, central management and the other main goals of Integration, among others: the internal control, the methods and tools of the financial support, the stand alone crisis management, the confidentiality and data protection, data providing, fee structure and the application of mandatory guidelines.
- The **Business Management Organization** of the Integration operates as the central body of the Integration acting on the unified business operation and management. Pursuant to the preliminary approval of the Integration Organization, MTB adopts obligatory regulation for all members of the CBICI and affiliates 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), and on unified IT systems.
- **Holding Cooperative** participates in the operation of the Integration Organization by exercising its ownership rights. It shall be entitled to manage its holding in integrated credit institutions and affiliates as its principal activity.

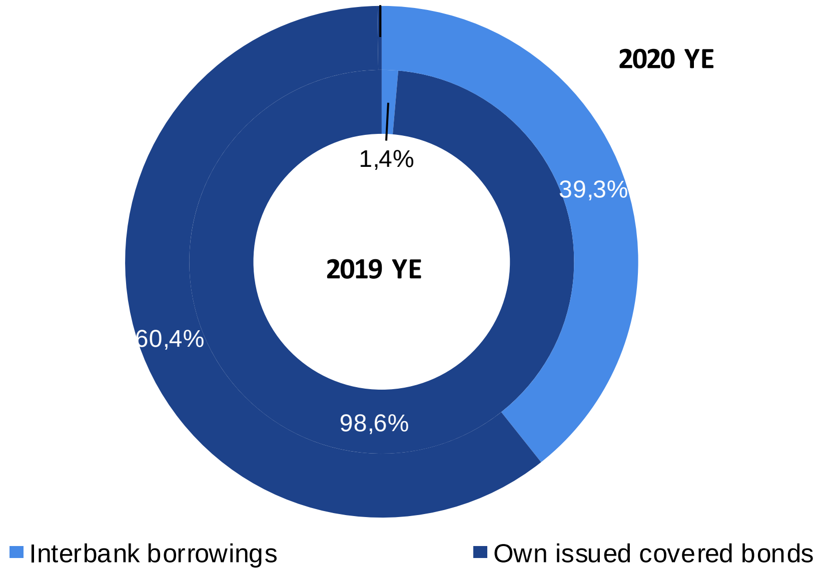
5. FUNDING & LIQUIDITY

Asset composition and funding structure (TMB standalone, IFRS)

Interest earning assets



Funding structure



As a pure refinancing mortgage bank, issued covered bonds are still the primary elements of funding:

- Simple funding structure
- CB issuances provide the main source of wholesale funding, but MNB's LTRO facility increased the share of MNB long-term funds
- 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

Funding, Issue strategy of TMB

Basic strategic principles

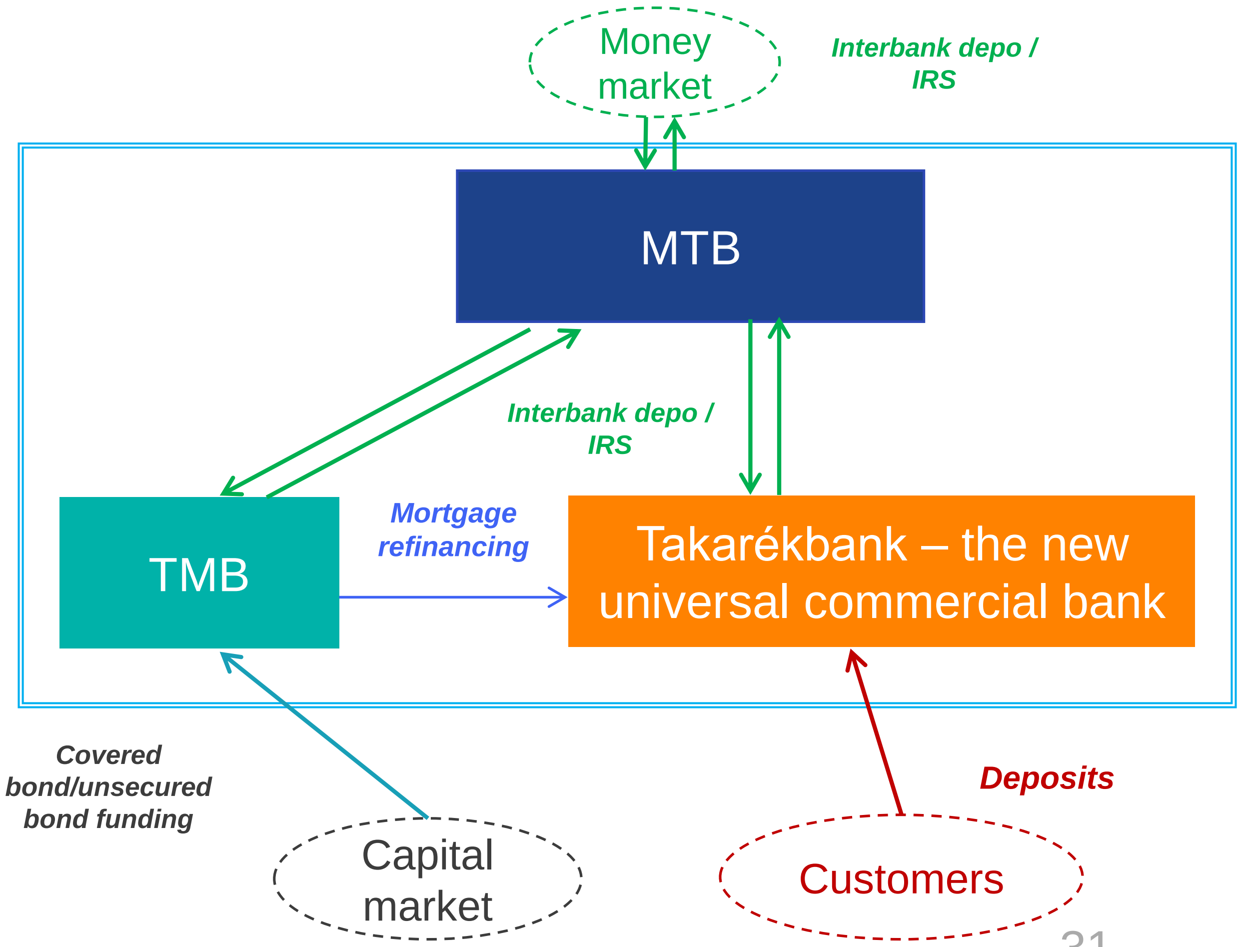
- TMB focuses primarily on covered bond issuance
- TMB's primary task is to meet the refinancing needs, even green ones, related to MFAR compliance for partner banks and Takarék Group, by issuing covered bonds
- TMB wants to be among the first to appear as a green mortgage bond issuer and meet ESG requirements
- The bank considers regular (monthly) presence in the capital market to be of primary importance. The marketing transactions are basically carried out through a public auction procedure with the participation of 4 distributors.

Issuance planning

- Annually renewed Issuance Program and Base Prospectus approved by the MNB, max. HUF 200 billion volume
- Optional securities: mortgage bond, green mortgage bond, unsecured bond
- Tenor: Targeted minimum maturity of mortgage bonds: min. 3 years, and in the longer term 5-10-15 years,
- Coupon: fixed or floating depending the market demand,
- Denomination: HUF, CHF, EUR, and other European currencies outside the Eurozone. In the current lending environment, TMB does not need foreign currency funds in the short term, as its main customer base is the population, for which the Takarék Banking Group lends exclusively in HUF. Refinancing of commercial real estate loans denominated in foreign currency provides an opportunity to increase the size of the hedging pool.
- Approximately HUF 20-40 billion of structural (uncovered) funds are needed to meet the over-coverage and liquidity requirements: this source is available from short-term interbank money market funds within the group and through the issuance of uncovered bonds.

Structure of financial transaction within the 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



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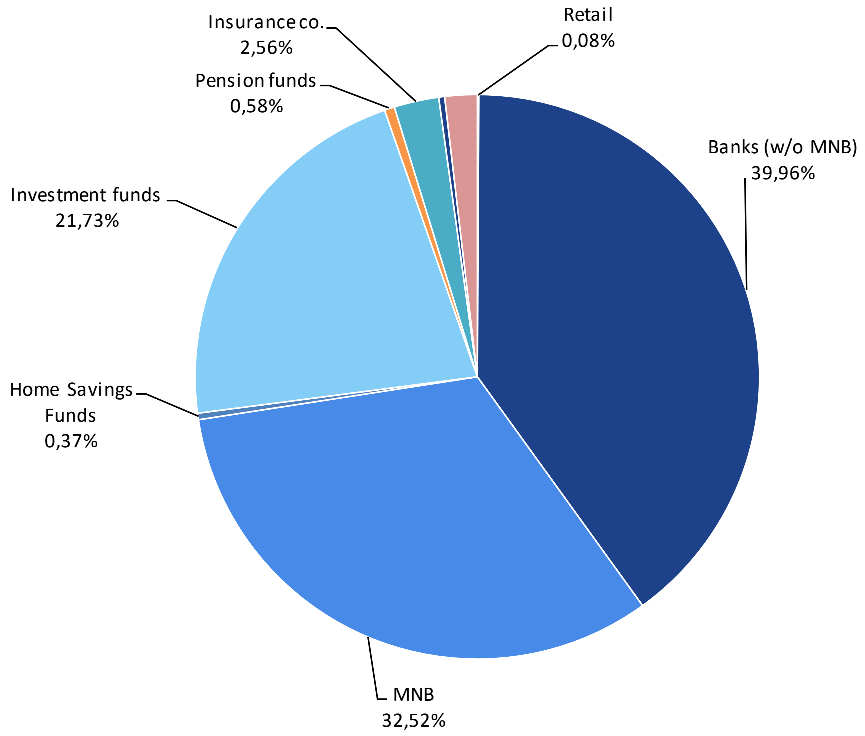
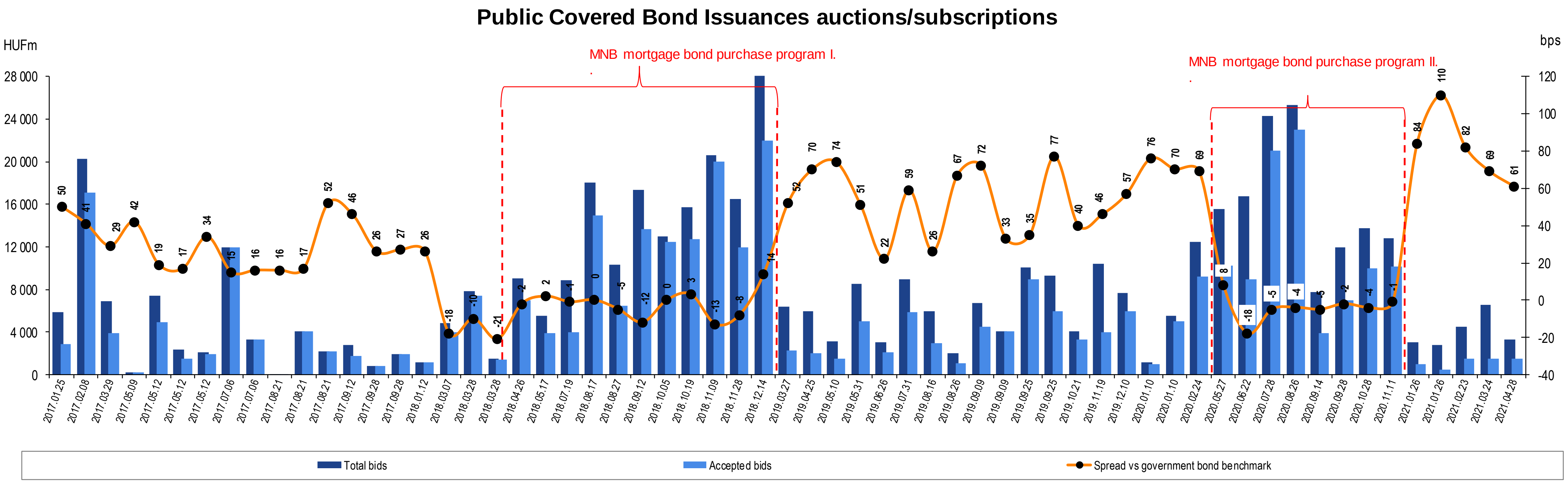
Takarék mortgage covered bond investor base (based on data available at the time of issuance), 2021 Q1

Banks, Magyar Nemzeti Bank (central bank), investment funds dominate the market of Takarék mortgage covered bonds



Covered bond issuance: volumes and spreads vs HGB benchmark



6. FINANCIAL INFORMATION

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

HUF million	H1 2019	End-2019	H1 2020	End-2020	Change : End-2020./End-2019
Major indicators					
Total assets	329 084	342 897	435 129	612 141	78.5%
Refinanced loans	190 348	216 983	230 957	287 061	32.3%
Own originated loans (gross)	70 129	58 807	54 550	49 446	.-15.9%
Issued covered bonds	211 767	272 481	266 260	329 035	20.7%
Interbank funding	17 787	3 710	101 383	212 989*	#
Shareholder's equity	63 863	65 043	65 109	66 684	2.5%

Balance sheet total jumped significantly in YoY terms driven by higher mortgage refinancing and *central bank's LTRO

Refinanced loan volume increased supported by central bank covered bond purchase programme

Own originated loan volume decreased further, as no new lending activity in this segment.

Outstanding covered bond volume increased in YoY terms driven MNB's Mortgage Bond Programme II.

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

millió forintban	End-2019	End-2020	Change : End-2020./End-2019
Profitability indicators			
Net interest income	2 563	3 212	25.3%
Net fee and commissions income	155	167	7.7%
Operating income net	1 966	676	-65.6%
Ipairment and provisioning	273	178	-34.8%
Operating cost	-3 337	-2 366	-29.1%
Profit before tax	**2 446**	**1 945**	**-20.5%**
Profit after tax	**2 140**	**2 373**	**10.9%**
EPS	***17.79 Ft***	***19.73 Ft***	***+1.94 Ft***
Return on Average Assets (ROAA)	***0.5%***	***0.6%***	-0.1ppt
Return on Average Equity (ROAE)	***3.6%***	***3.4%***	0.2ppt

Robust growth in net interest income YoY

Decreasing operating cost in YoY

10.9% YoY growht in profit after tax in 2020

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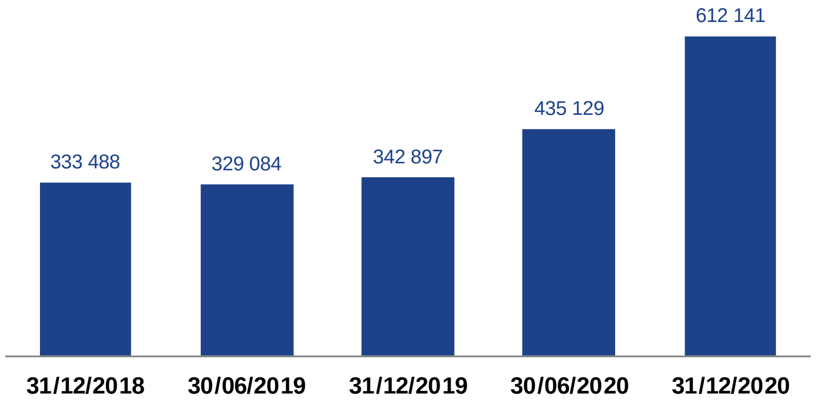
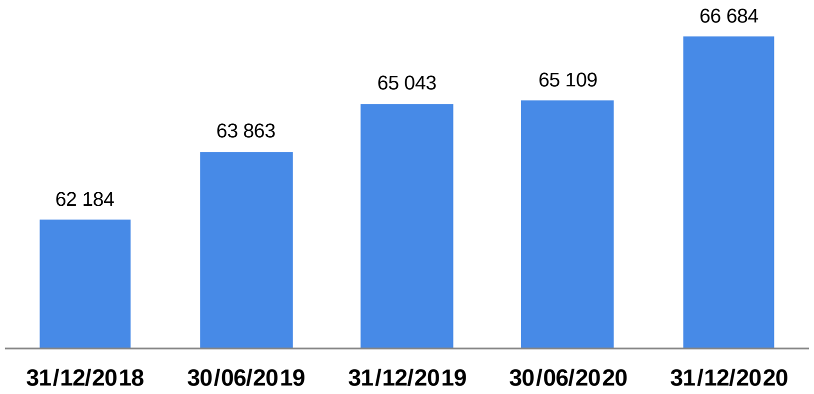
Financial performance III. - major indicators (TMB standalone, IFRS)

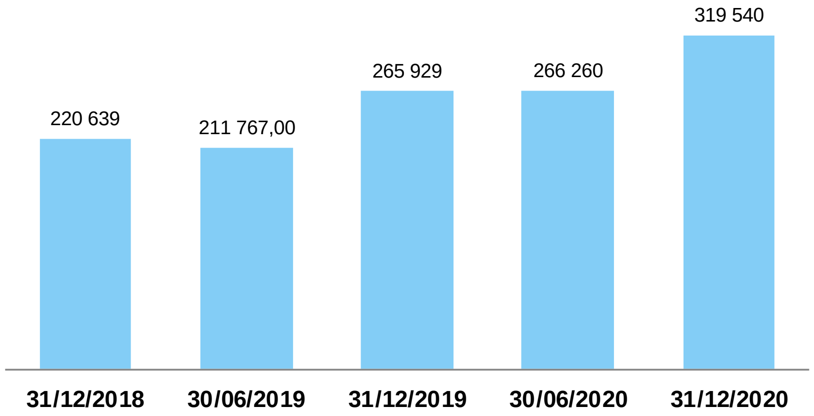
Balance sheet total (HUF million)



Shareholder's equity (HUF million)



Mortgage bond issued (HUF million)



Upward tendency in B/S total retained in 2020

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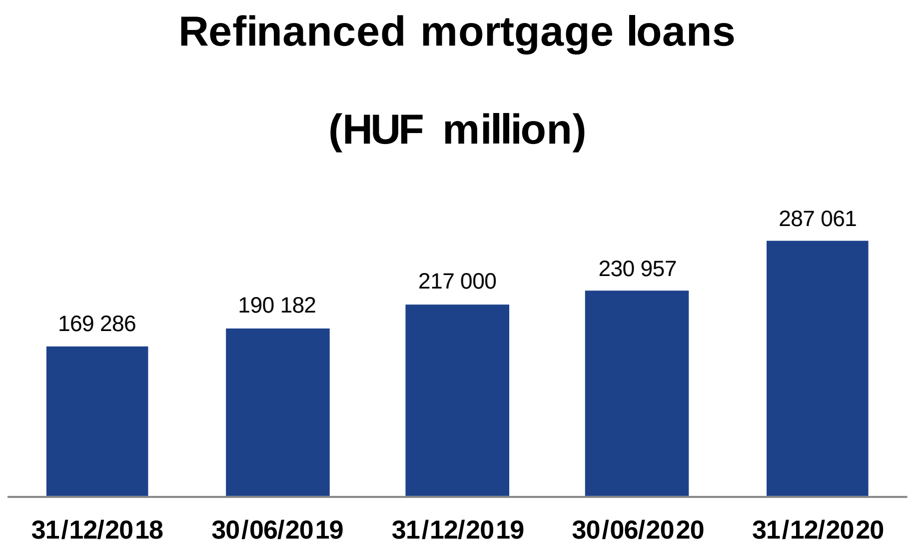
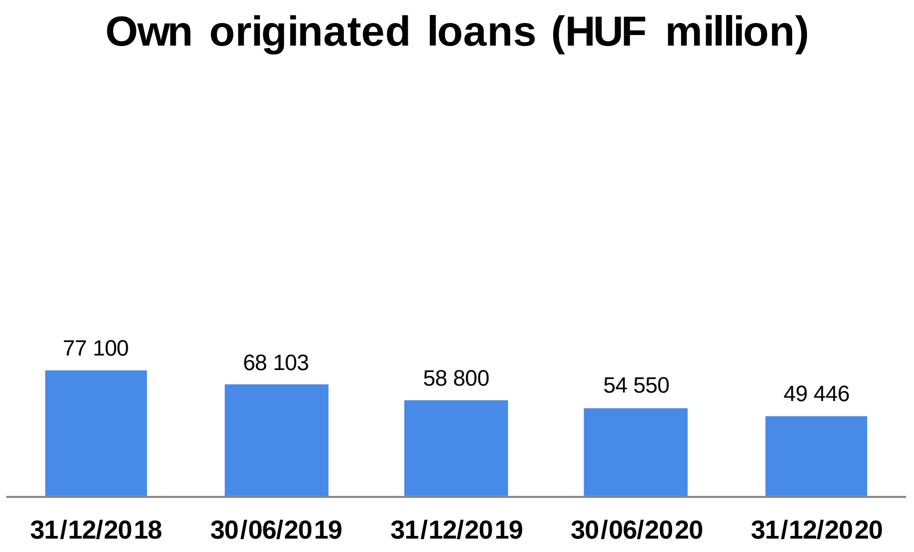
Financial performance IV. - major indicators (TMB standalone, IFRS)





Refinanced loans dominate the loan portfolio, as own originated loan volume gradually deceases after own lending activity had been stopped in 2018.

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Capital position (consolidated,Takarék Group)

HUF million	End-2020	End-2019
Own funds	276 185	269 529
TIER 1 Capital	276 185	269 529
Common Equity TIER 1 Capital	276 185	269 529
ROAE (return on average equity %)	0.7	2.6

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

The total own funds of the Integration of Credit Institutions amounted over HUF 276 billion at the end of 2020, while its capital adequacy ratio was 17.95%.

7. APPENDIX

Regulatory framework I.

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

LAW

- 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 II.

LAW

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

The cover system

i) The coverage

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. TMB keeps a minimum OC of 2% based on its internal regulation

ii) Strict LTV rules:

- Claims from mortgage loan, refinanced mortgage loan, re-purchase price of independent mortgage liens can be considered as normal collateral in the pool (i) up to 60% of mortgage lending value of the property;
- (ii) up to 70% of the mortgage lending value in case housing property

iii) 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.

Harmonization of EU Covered Bond Directive with domestic mortgage bank act to be finalized by June 8, 2021.

- Minimum OC: 2-5%
- CRR to be amended in line with EU Driective
- Eligibility of collateral assets outside the EU
- Intra-group pooled covered bonds
- Joint funding
- 6M liquidity buffer
- Extendable maturities

IMPLEMENTATION OF NEW EU CB DIRECTIVE COME INTO FORCE AS OF JULY 8, 2022.

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Regulatory framework III.: Resolution Act

Special status of the covered bonds based on the Resolution Act

LAW

Hungarian regulation:

The Act XXXVII of 2014 on the further development of institutional protection for certain actors in the financial intermediary system (hereinafter: The Resolution Act) provides for the following:

(A) In accordance with Section 58 (1) and (4) of the Resolution Act **the creditors' bail-in (recapitalization) does not cover the following obligations**, regardless of whether they arose or exist under the law of an EEA State or a third country:

(1) point c): liabilities from covered bonds and mortgage bonds, up to the extent of the coverage.

(4) The above means that authorities (Hungarian National Bank) acting in its resolution task may apply the creditors' bail-in, to the part of the value/amount of the covered bonds, including mortgage bonds, that exceeds the coverage level of the covered bonds.

B) **Protection of parties taking part in a partial transfer:** Section 99 (2). e) and 102 (2)

The MNB acting in the resolution task is not entitled to

(a) the transfer of part of the assets, liabilities, rights and obligations which form part of or form part of a structured finance agreement to which the institution under resolution is a party;

(b) the termination or modification, through the application of ancillary rights, of assets, liabilities, rights and obligations which form part of or form part of a structured finance agreement to which the institution under resolution is a party.

European regulation:

The Part Four (Capital requirement for market risk, large exposures) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms relates to refinancing activity: Article 400 lists the exposures for which the law exempts mortgage bonds from the application of Article 395 (1). Pursuant to the Act on the Credit Institutions and Financial Enterprises (Act. no. CCCXXXVIII of 2013) the above mentioned exemptions in Hungary will remain in force by the 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 arising from a reverse repurchase agreement under which the institution has purchased a non-accessory independent mortgage liens on real estate from the counterparty as individual exposures to each relevant third party, provided that all of the following conditions are met: i) the counterparty is an institution ii) the exposure is fully covered by liens on the property of those third parties purchased by the institution and the institution is able to exercise those 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 shall report to the competent authorities the total amount of its exposures to each institution under this paragraph in accordance with Article 394.

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

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

MNB’s mortgage covered bonds purchasing program II. was launched from May 18 2020 with the below conditions:

- 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

TMB issued a volume of HUF 94.3 bn under the programme, which refers to 28.3% of the total domestic covered bond issuances under the MNB’s purchasing program.

Moratoria 1:

- From 19 March until 31 December 2020
- Effective for loans that had been contracted before 18 March 2020
- Apply for principal, interest and fees under credit facilities

Moratoria 2:

- Hungarian Parliament decided to extend the payment moratoria on 20 October 2020 and it was amended later on 22 December 2020
- Effective until 30 June 2021
- Still covers principal, interest rate and fee obligations related to mortgage loans, consumer loans, debit cards, financial leasing
- Banks automatically extended the payment holiday for clients who had been already participating in Moratoria 1
- Originally, eligibility conditions had been planned to use (switch to an ‚opt-in’ moratoria) but amendment (as of December 22) eliminated the planned entry conditions

MNB's measures to mitigate the negative climate change impacts– measures affecting the Issuer II.

Magyar Nemzeti Bank launched its Green Programme in February 2019

<u>MNB's Green objectives:</u>

- Supporting the development of sustainability risk management functions at money and capital markets
- Improving the funding conditions of green investments
- Adaption of green financing approach on the local capital market
- Encouraging the issuance of green mortgage bonds and green unsecured bonds
- Encouraging green lending through preferential capital requirements and MFAR ratio

Green mortgage bond purchase program (expected start: 2021H2)

The programme aims at establishing a functioning green covered bond market and stabilizing its operation. Conditions are widely expected to be similarly to the MNB's covered bond purchase programme II. launched in 2020, but with the extension of green collateral eligibility criteria. MNB is set to purchase green mortgage bonds on both the primary and secondary markets with the below parameters:

- Fixed coupon instruments
- Public issuance, security registered at BSE
- Normal collateral assets consists of retail housing loans mainly (minimum ratio of 80%)
- Offered amounts to be announced before issuance
- Firm market making

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 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. The intention of the Central Bank the ratio will further increase to 30% from 1st October 2022.
- 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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