



INVESTOR PRESENTATION

Takarék Mortgage Bank Co. Plc.

September 30, 2021

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ABBREVIATIONS

TMB: Takarékszövetkezet Mortgage Bank Co. Plc

MTB: MTB Magyar Takarékszövetkezeti Bank Ltd.

Takarekbank: Universal commercial bank of Takarek Group

Integration Organisation, IHKSZ (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: Takarékszövetkezet Unified Cooperative

EHPSZ: First Domestic Financial Service Developing Ltd

HBH: Hungarian Bankholding

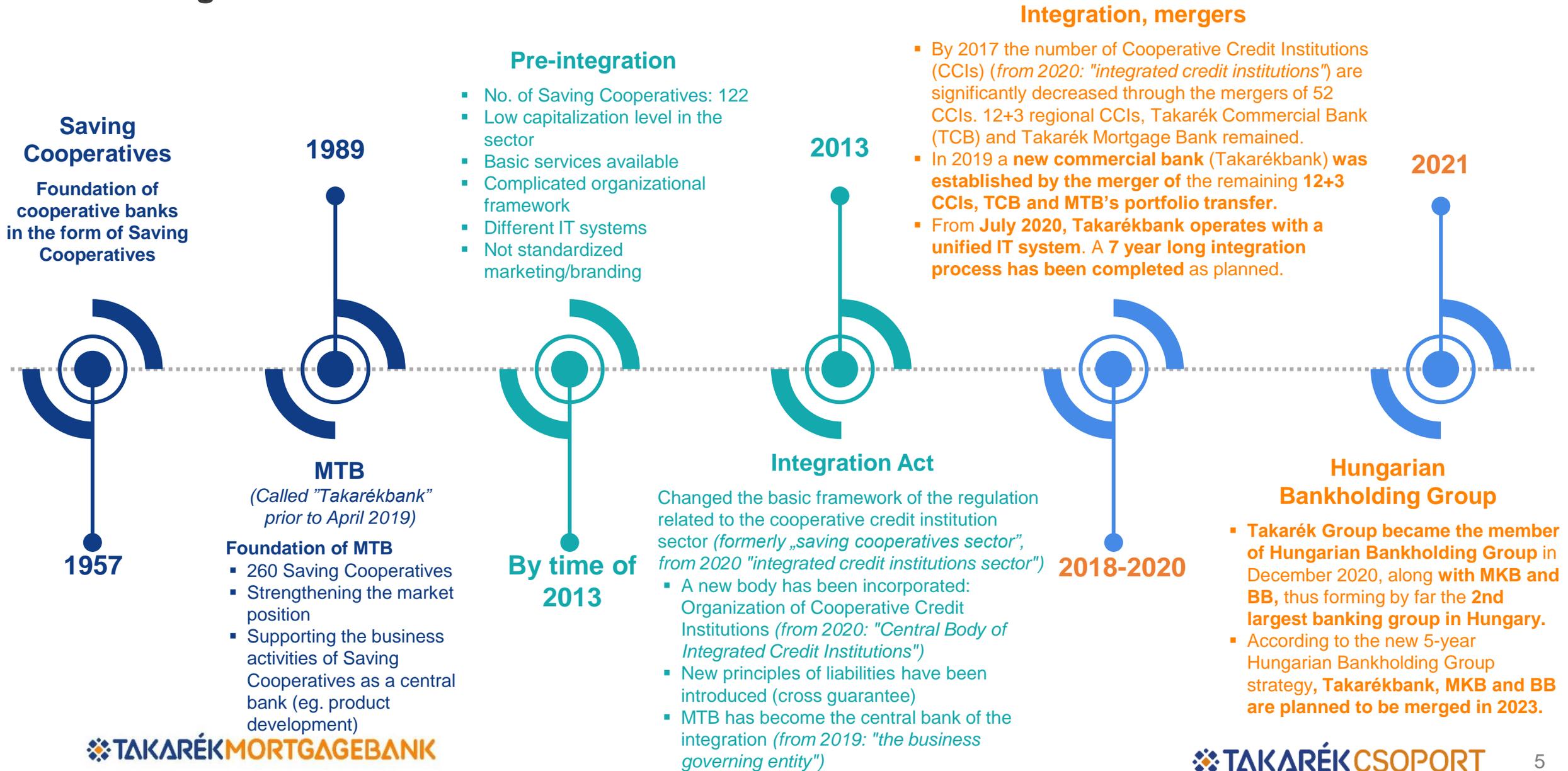
HBG: Hungarian Bankholding Group



1. THE GROUP



Takarék Group's evolution: from saving cooperations to the member of the Hungarian Bankholding



Hungarian Bankholding: the milestones



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)

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.

BANKS (MKB, BB, 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.

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



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 (2020¹)

- **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**

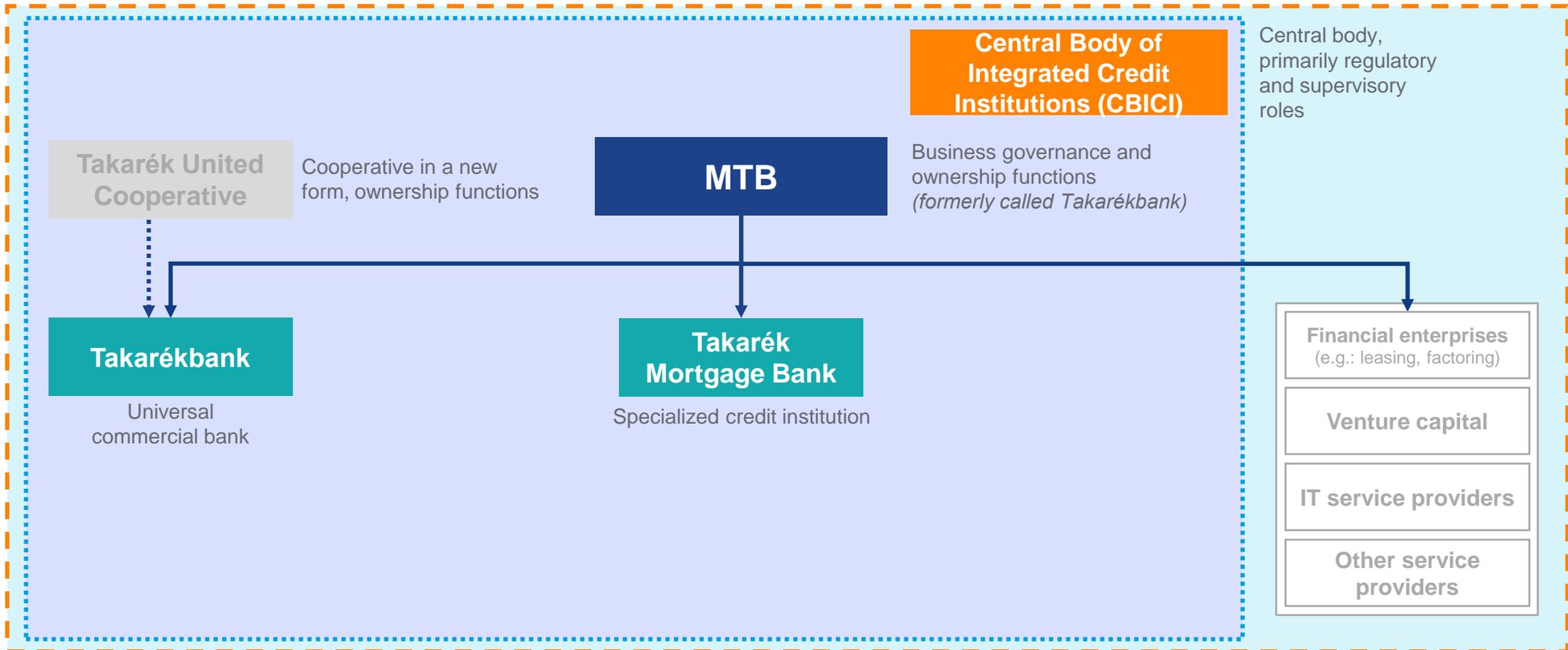
Activities of the Hungarian Bankholding Ltd.

- **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.)

Standalone management structure of Takarék Group



Takarék Group

Integration of Credit Institutions (Integration)

2. COMPANY OVERVIEW, OWNERSHIP & ORGANIZATION STRUCTURE



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'



23-year activity on local and international capital markets

- Frequent mortgage bond issuer, nominal amounts of issues reaches HUF 60-130bn on annual basis
- 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

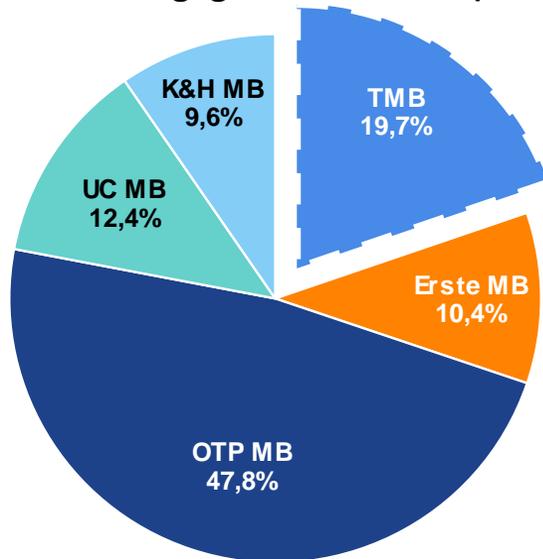
2017/ Satellite institutions are directly subordinated to MTB.

April 2018 / ,Pure Refinancing Mortgage Bank'

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

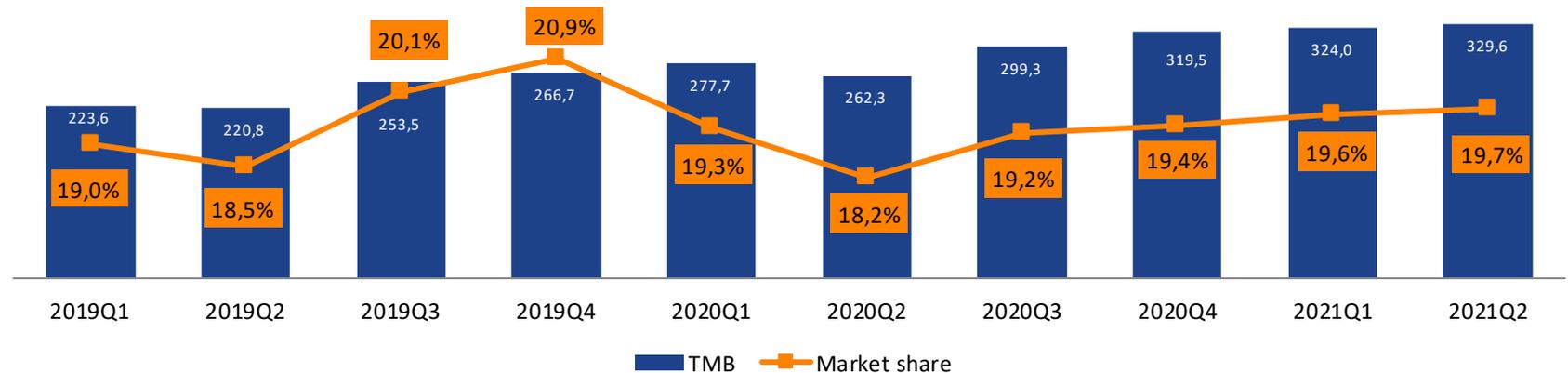
TMB's presence on domestic mortgage bond market

Market share of local mortgage banks based on issued mortgage bond volume (2021 Q2)



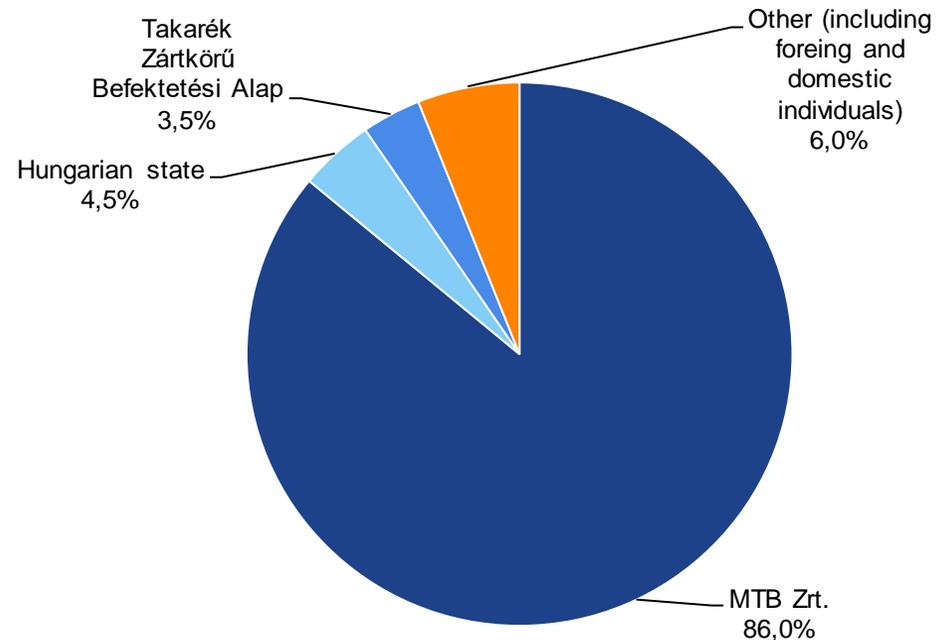
Market share around 20% is retained in outstanding covered bonds on the local market

Outstanding mortgage bond volume



TMB's Ownership structure – Share of Integration members is over 85%

Takarék Mortgage Bank Co. Plc. ownership structure
(30.06.2021)



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

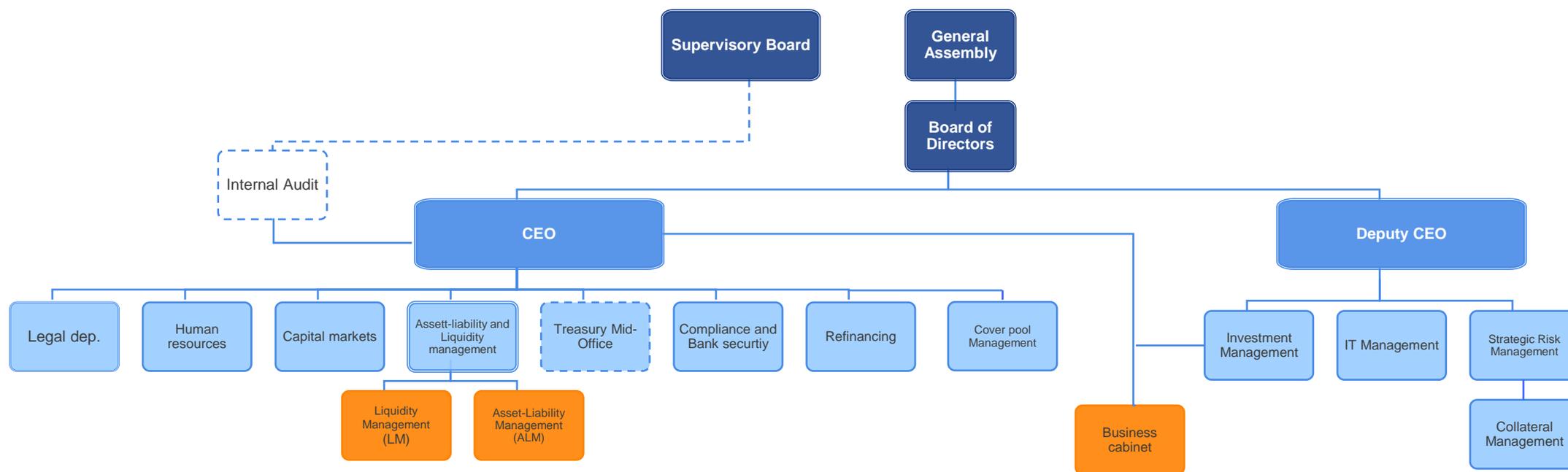
Attila Mészáros: internal member (MTB CRO since 11 October 2018)

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



3. STRATEGY AND SUSTAINABILITY



Strategy objectives, growth targets

Business strategy

- **Pure refinancing mortgage bank model:** TMB operates exclusively as mortgage bond issuer and refinancing centre
- **Expanding mortgage refinancing business:** TMB provides mortgage refinancing service for the members of the TakaréK Group and for other partner banks outside the Integration.
- **Streamlining:** simplification and modernization the refinancing process, the real estate valuation, the coverage register, the IT system and making the ALM more efficient
- **Speeding up the growth:** intensification of the refinancing activity via streamlining the refinancing system
- **Simplification of the coverage pool:** subsidized old retail loans and some project loans gradually amortize pointing to a pure refinancing mortgage loan asset pool in the long run
- Gradual restart of refinancing **commercial mortgage loans**
- **Adopting the ESG attitude,** Implementing ESG factors and business attitude into the TMB's medium term strategy, ESG reporting
- Launching AVM, providing AVM service to third party banks

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

Main goals

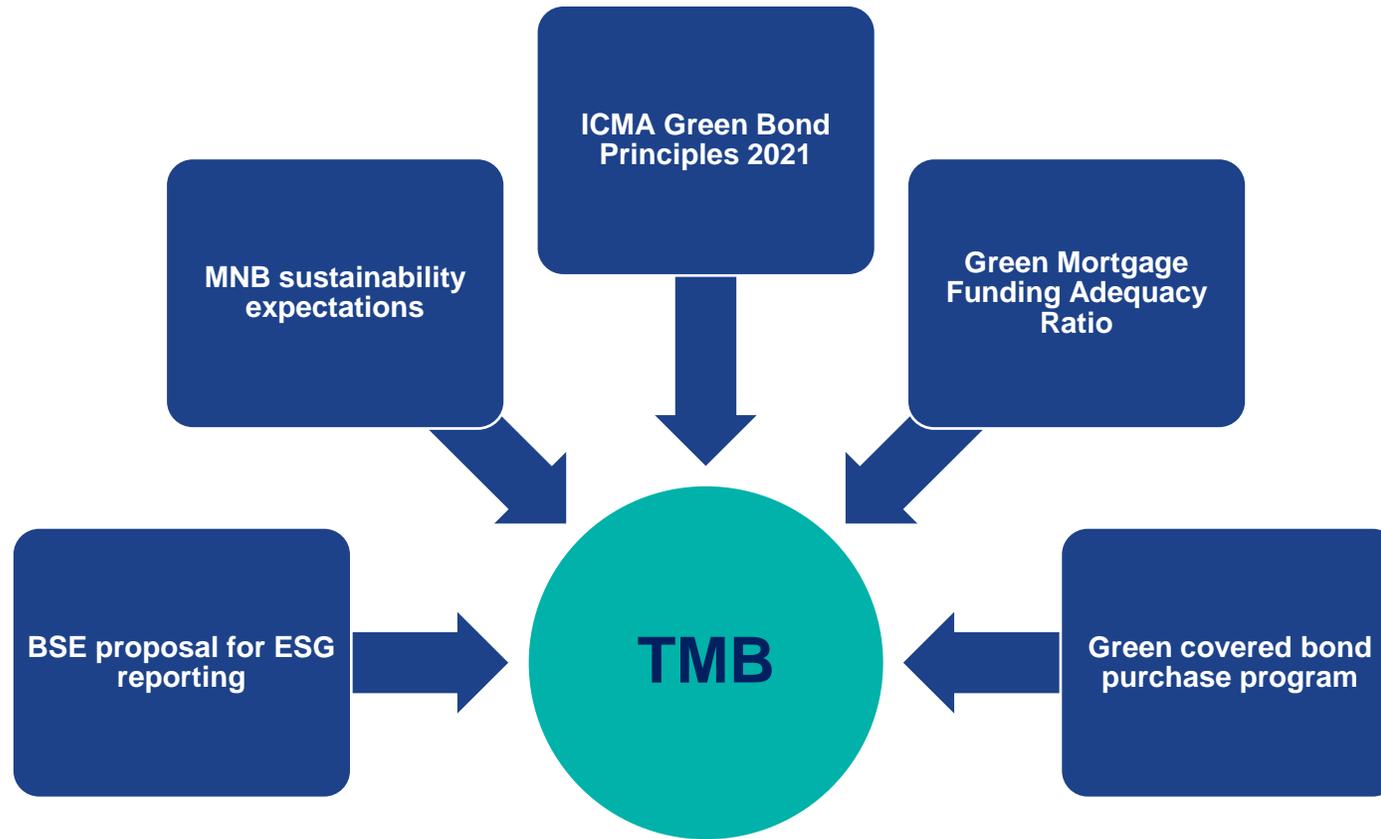
Covered bonds issuance

- Competitive pricing
- Increasing market volume
- Active ALM activity
- Expanding the investor base – **„going green“**
- Higher transparency, including ESG
- Access to cheap long-term funding

Refinancing

- Increasing market share
- Optimization of the operation, the products, and the service portfolio
- Increasing the transparency and the simplification of the products
- Increasing the profitability
- High quality refinancing service for the partner banks
- New, up to date real estate valuation methodologies, developed IT basis
- Fast and secure operation on the largely automated basis

Green financial requirements influencing the TMB strategy



SIGNIFICANT IMPACT ON BOTH REFINANCING BUSINESS AND COVERED BOND ISSUANCE STRATEGY



Results of TMB's green project so far

1. **Preparation of the Green Framework** - the Green Bond Principles (GBP), developed by the International Capital Market Association (ICMA), were used as one of the two international standards recognized by the MNB, and prepared with the assistance of a German technical consultant Drees&Sommer
2. **Selection of an independent verification expert** – the selection of the European market leader Sustainalytics
3. **Conducting the Green Framework certification process** – Sustainalytics has conducted its assessment with the final results provided at the end of September 2021.
4. **Developing Green Pricing** – a methodology that takes into account the impact of the MNB's mortgage bond purchase program and the changes to the JMM regulation has been finalized and approved.
5. **Developing a green refinancing process** – the IT needs of the green refinancing process have been identified.
6. **Informing MBH members, as partner banks** about green refinancing activities.

Takarék Mortgage Bank Green Mortgage Bond Framework



Main parameters and content of the framework

- Structure according to Green Bond Principles (2021)
 - *Use of proceeds from the issue,*
 - *Evaluation and selection process*
 - *Revenue management - allocation within 24 months of issue/issue on promissory note'*
 - *Reporting*
- Takes into account the EU Taxonomy Regulation
- Includes a set of green technical criteria for green residential and commercial properties
- Definition of the Green Loan
- Commitments expected from refinancing partner banks



DREES & SOMMER



- Definition of green buildings
 - Portfolio analysis
- Impact assessment report

SUSTAINALYTICS
a Morningstar company



- Second Party Opinion
- External post-issuance expert report



ESG project – details

Key results of the ESG project so far:

- Request for proposals from three advisories at the beginning of June for the performance of the two key tasks:
 - (i) Conduct ESG gap analysis and develop ESG strategy by 30/12/2021,
 - (ii) BSE ESG report due in first half of 2022
- TJB completed its ESG gap analysis and action plan submitted to the MNB compiling with its Green Guidance end-September

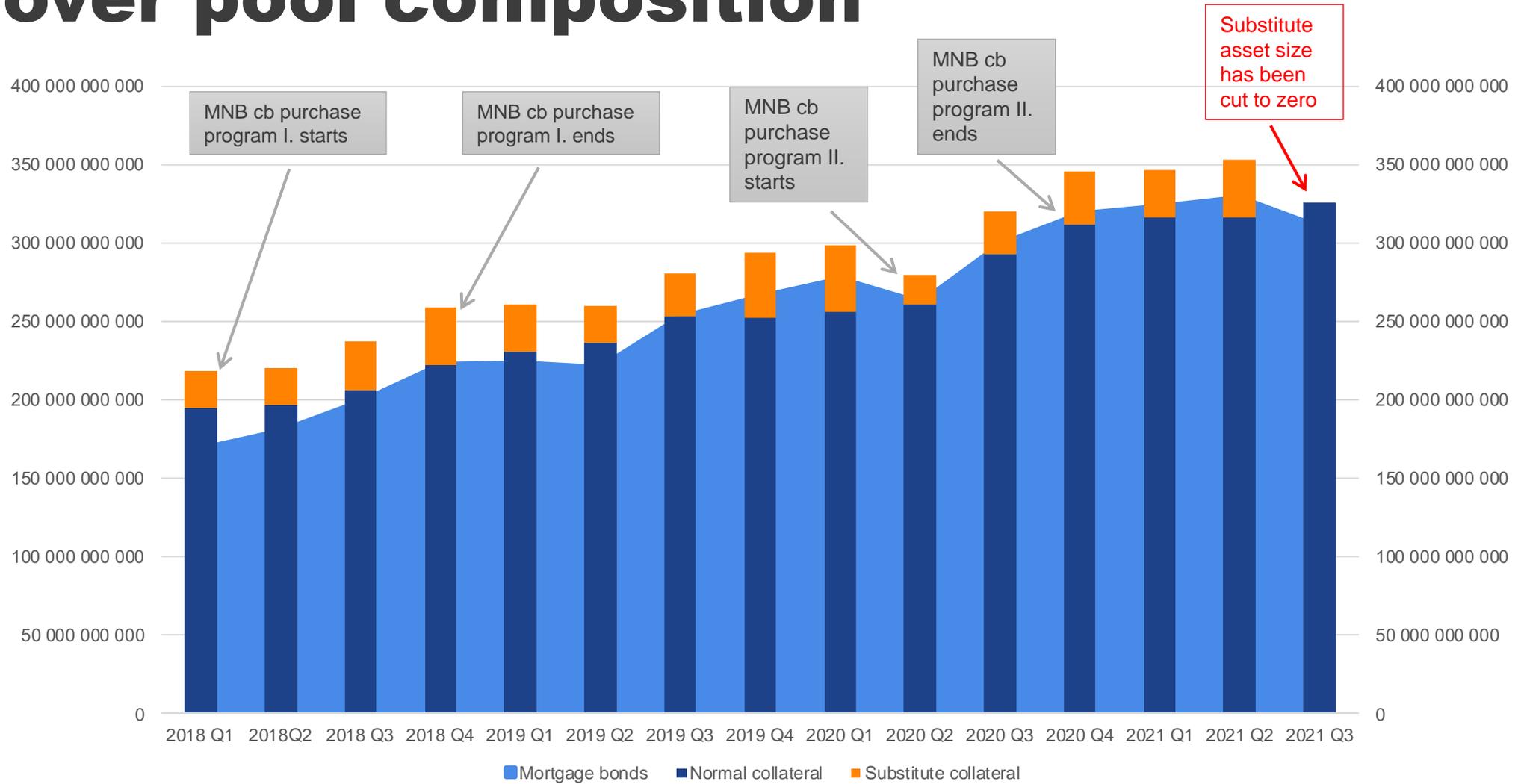
ESG project expected timeline, main phases:



4. COVER POOL CHARACTERISTICS AND RISK PROFILE

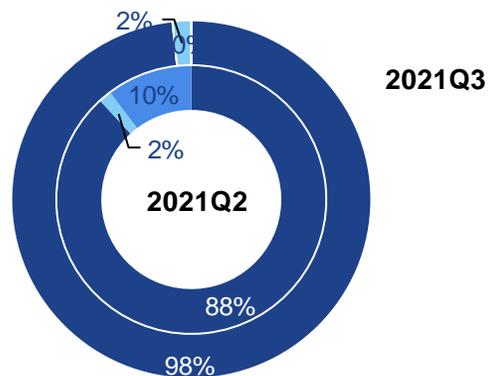


Cover pool composition



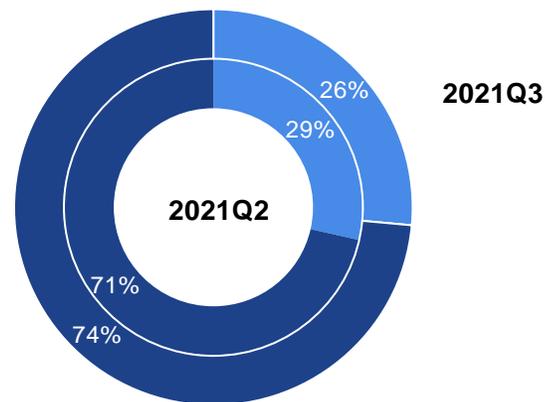
Cover pool characteristics, Q3 2021

Asset types of cover pool



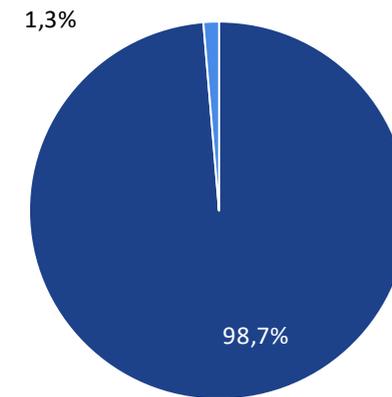
■ Residential loans ■ Commercial loans ■ Substitute assets

Interest rate distribution of cover pool



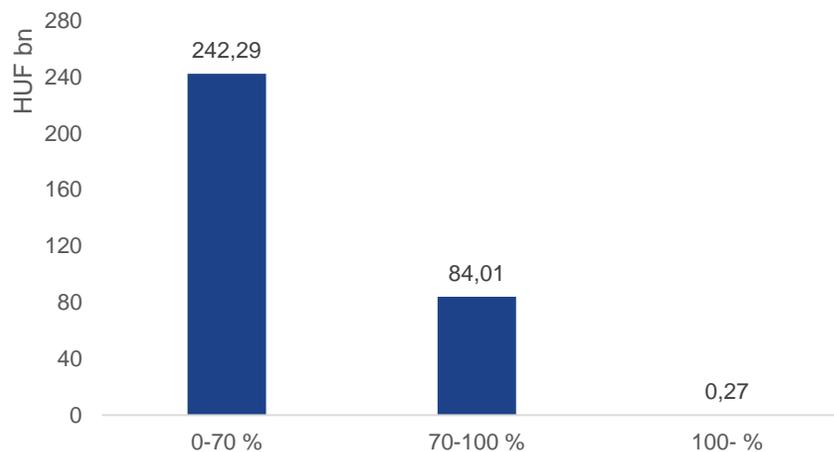
■ Floating rate ■ Fixed rate

FX distribution of cover pool



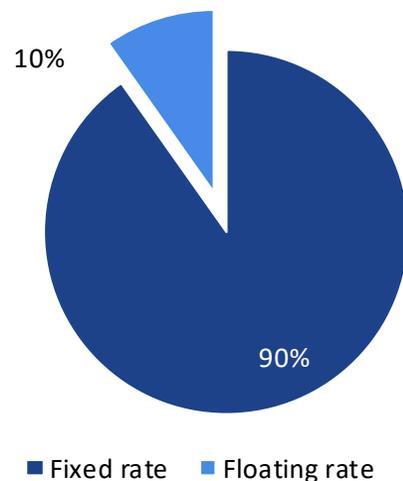
■ HUF ■ Other

Current LTV distribution of loans

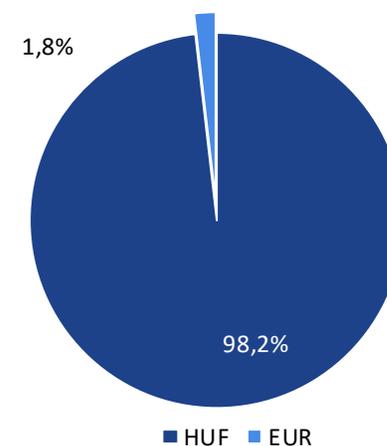


Cover bond portfolio characteristics and rating, Q3 2021

Interest rate distribution of covered bonds

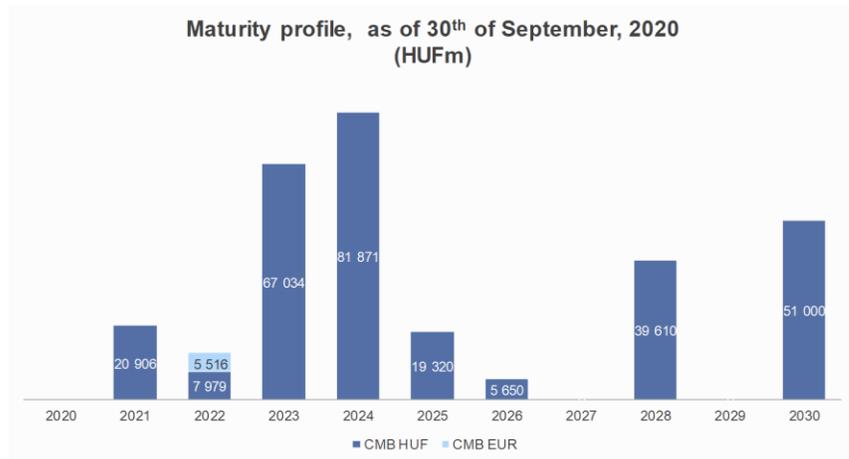


FX distribution of outstanding covered bonds

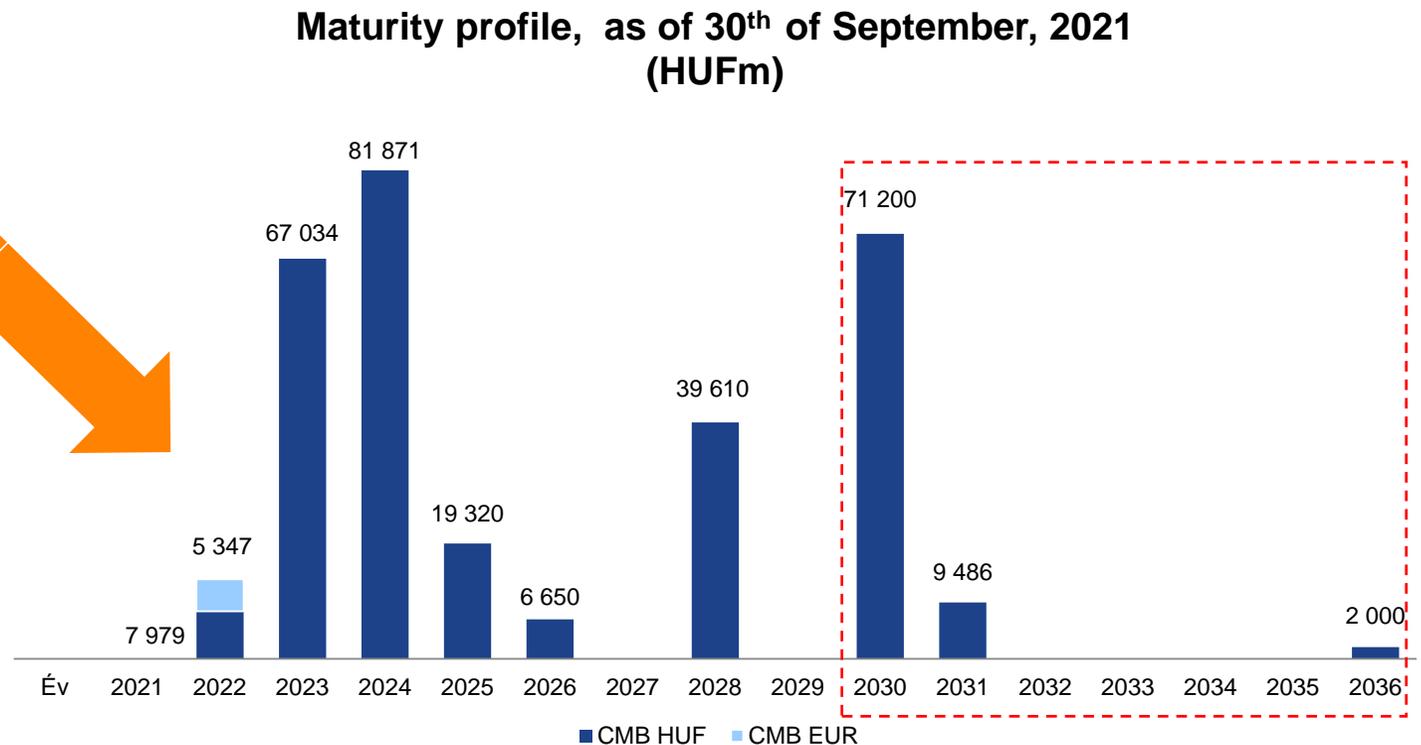


Category	S&P's rating	Date of rating action
Local and foreign-currency denominated covered bonds	BBB stable Investment grade category	2021.06.03.

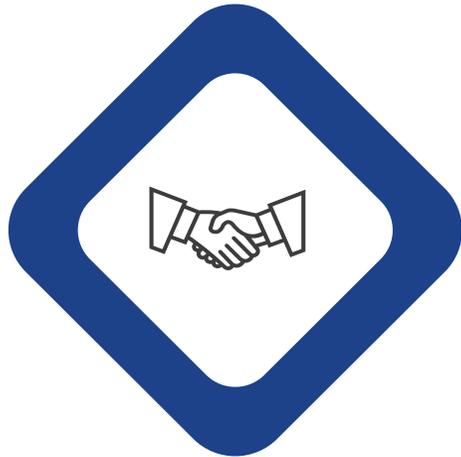
Covered bond maturity profile



Maturity extension in 2021:
10Y and 15Y segment of the curve in focus



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



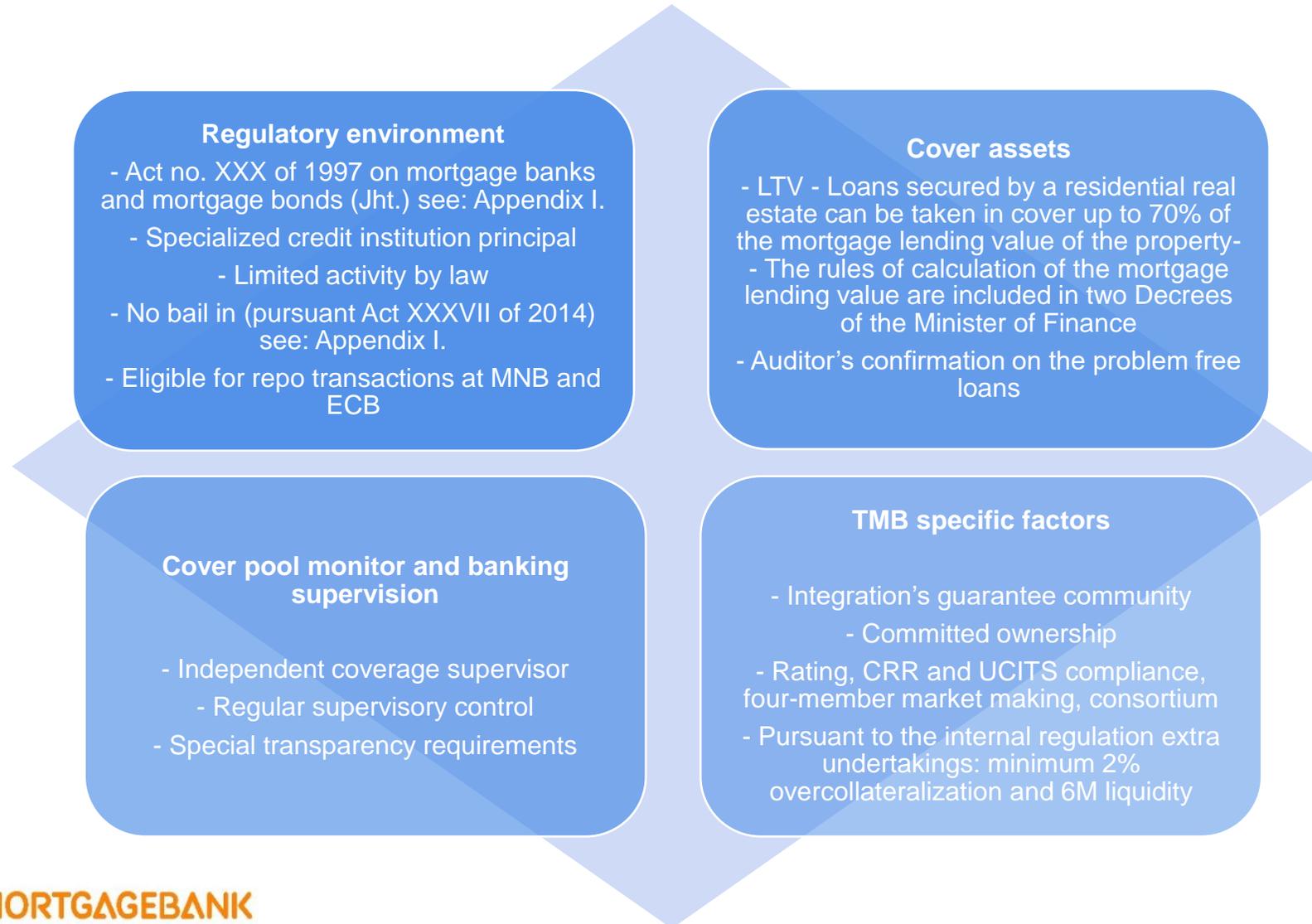
Issuer specific factors

Integration membership – guarantee community

Overcollateralization and 6M liquidity buffer

Rating – investment grade, CRR & RWA

Risk mitigating factors of TMB's covered bonds II.

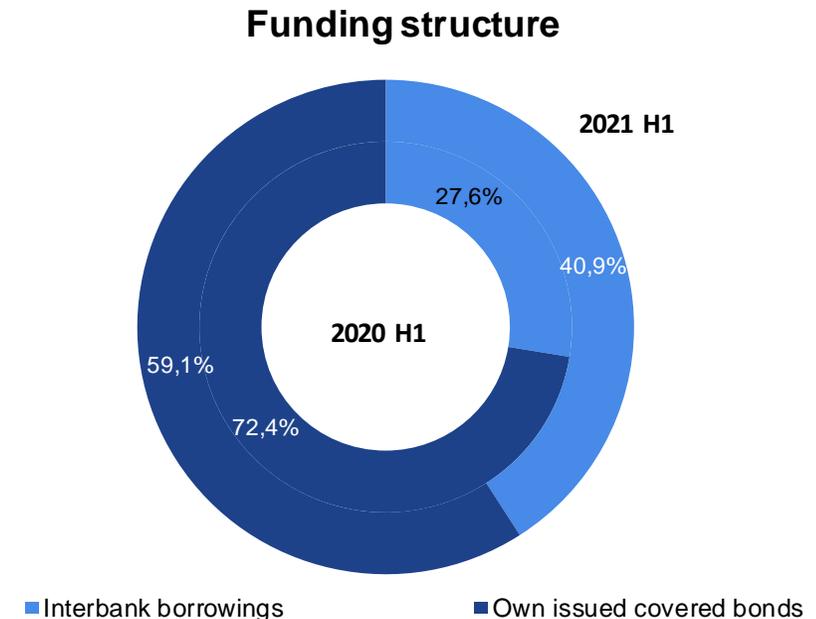
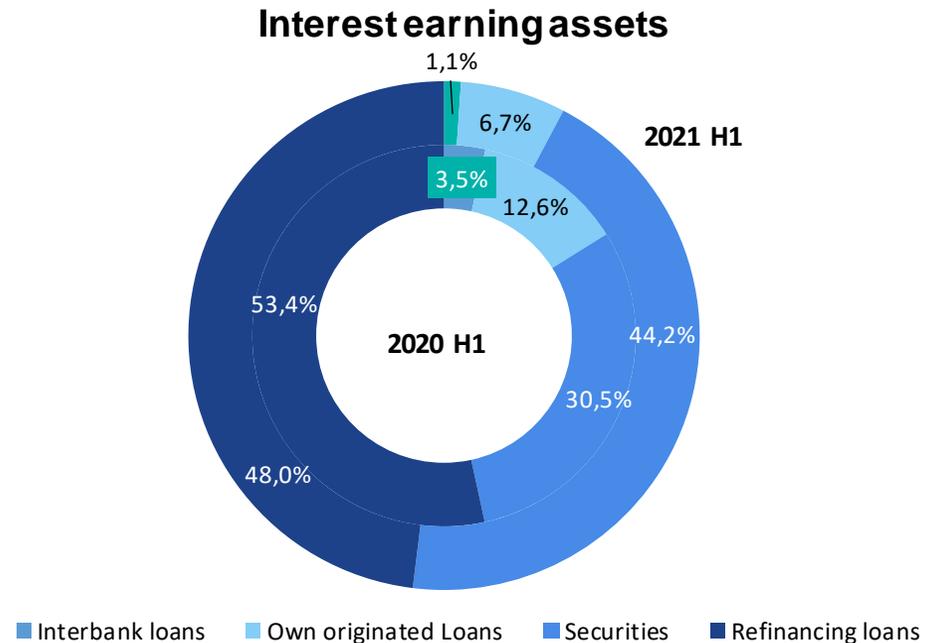




5. FUNDING & LIQUIDITY



Asset composition and funding structure (TMB standalone, IFRS)

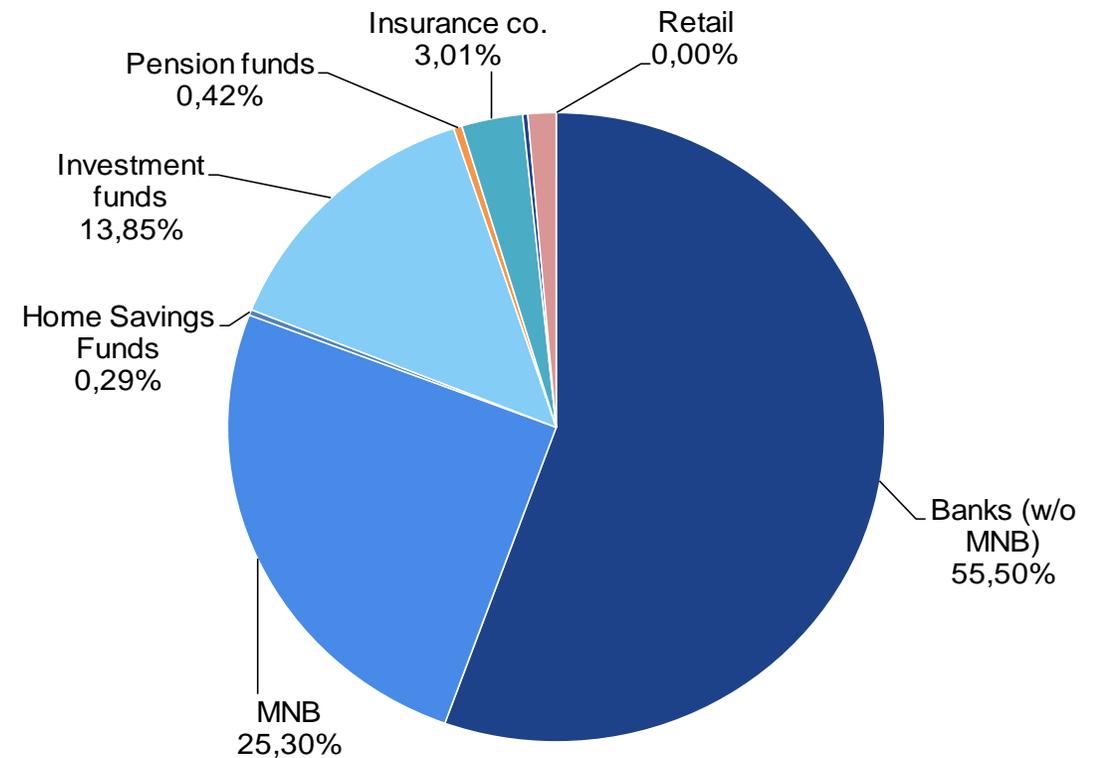


As a pure refinancing mortgage bank, the funding structure is dominated by issued covered bonds:

- CB issuances still dominates wholesale funding
- Share of securities within interest earning assets increased in parallel with MNB's LTRO facility, own originated mortgage loans amortize further
- TMB's 6M liquidity buffer and min. 2% OC obligation maintains a certain level of structural need for unsecured funding.

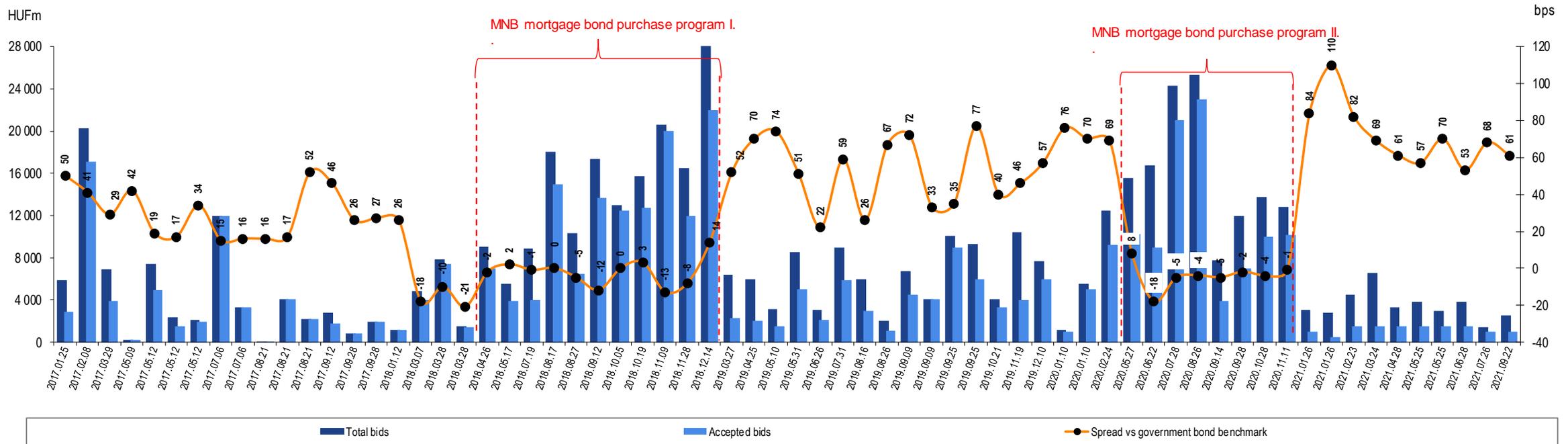
Takarék mortgage covered bonds' investor base (based on data available at the time of issuance), Q3 2021

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

Public Covered Bond Issuances auctions/subscriptions



Spreads jumped after MNB ceased primary market purchases, but frequent small-scale issues stabilized the pricing with modest MNB participation on the secondary market until July.

Long-term funding strategy, new focus on the Green CB



General strategy follows the green pathway

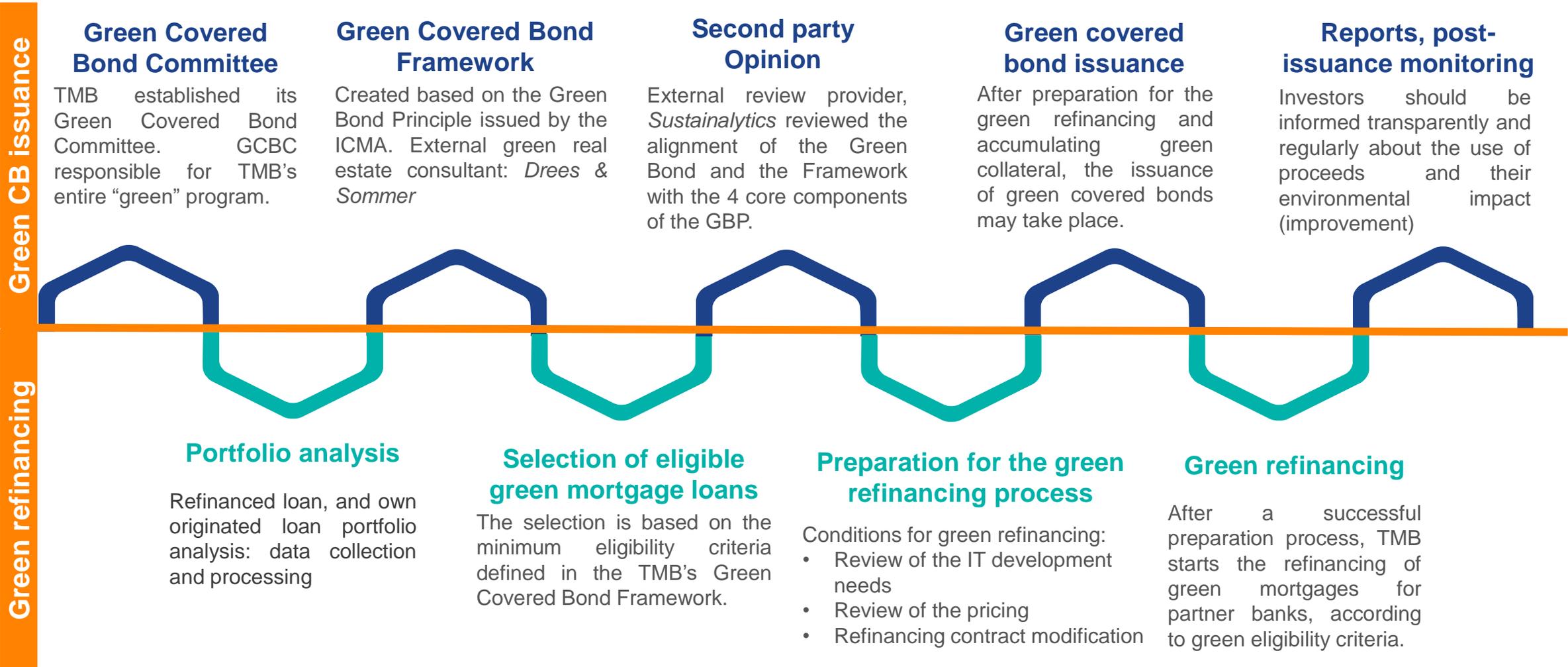
- TMB focuses primarily on covered bond issuance (vs unsecured bonds), however in the near future the most important target is the green covered bond issuance, of which share is to increase gradually over time
- TMB acts as the issuer entity to support compliance to MFAR compliance for partner banks and the Hungarian Bankholding,
- Successful maturity extension to 10Y-15Y segment of the curve, 10Y segment should remain in focus, as it fits to TMB's interest rate risk profile
- Current lending environment implies no major FX funding need in the short run, as retail lending is practically only in HUF. However, FX refinance lending in commercial mortgage loans is an option to extend the cover pool.
- HUF 20-40bn structural (unsecured) funding need occurs due to OC and liquidity buffer needs: funded from short-term intra-group MM funding and unsecured bond issuance
- Intensifying communication with the investors due to the new green assets



The funding strategy is highly driven by the Magyar Nemzeti Bank's renewed policy tools

- MNB launched Green Covered Bond Purchase program (Fix coupon and HUF denomination)
- New JMM regulation (tightening conditions: 30%, JMM „green mortgage” definition)
- MNB's Green Home Programme

The process of green covered bond issuance and green refinancing





6. FINANCIAL INFORMATION



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

HUF million	End-2019	H1 2020	End-2020	H1 2021	Change : 30/06/2021./- 30/06/2020
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Major indicators

Total assets	342 897	435 129	612 141	634 834	48.0%
Refinanced loans	216 983	230 957	287 061	296 059	28.2%
Own originated loans (gross)	58 807	54 550	49 446	41 126	(24.6%)
Issued covered bonds	272 481	266 260	329 035	338 529	27.1%
Interbank funding	3 710	101 383	212 989*	234 469*	131.1%
Shareholder's equity	65 043	65 109	66 684	67 507	3.7%

Balance sheet total retained the upward trend in both YoY and HH terms

Strong dynamics of the extension of refinanced loan volume maintained

Own originated loan volume shrinks further in line with expectations

Outstanding covered bond volume increases in YoY terms, larger maturity took place in July 2021

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

millió forintban	End-2020	H1 2020	H1 2021	H1 2021 / H1 2020
Profitability indicators				
Net interest income	3 212	1 309	1 954	49.3%
Net fee and commissions income	167	85	48	(43.5%)
Operating income net	676	2 650	2 488	(6.1%)
Impairment and provisioning	178	106	278	162.3%
Operating cost	-2 366	1 409	1 098	(22.1%)
Profit before tax	1 945	1 128	1 127	(0.1%)
Profit after tax	2 373	1 128	1 056	(6.4%)
EPS	19.73 Ft	10.42 Ft	9.76 Ft	(6.4%)
Return on Average Assets (ROAA)	0.6%	0.58%	0.34%	(0.2%-pt)
Return on Average Equity (ROAE)	3.4%	3.48%	3.17%	(0.3%-pt)

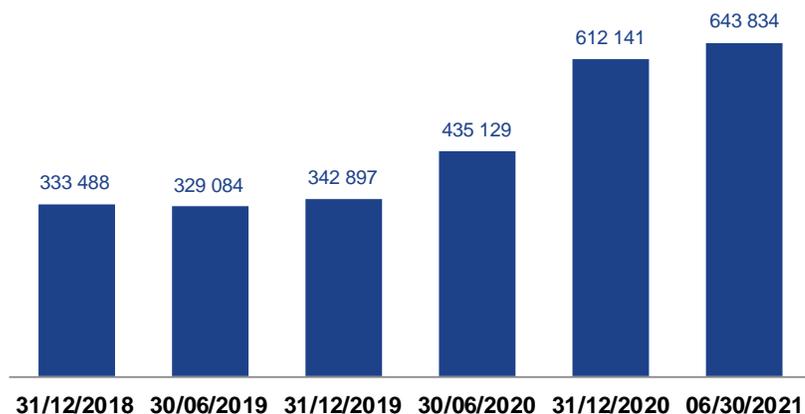
HUF 1.1bn profit after tax in H1 2021, similar to H1 2020

Higher impairment and provisioning in H1 2021

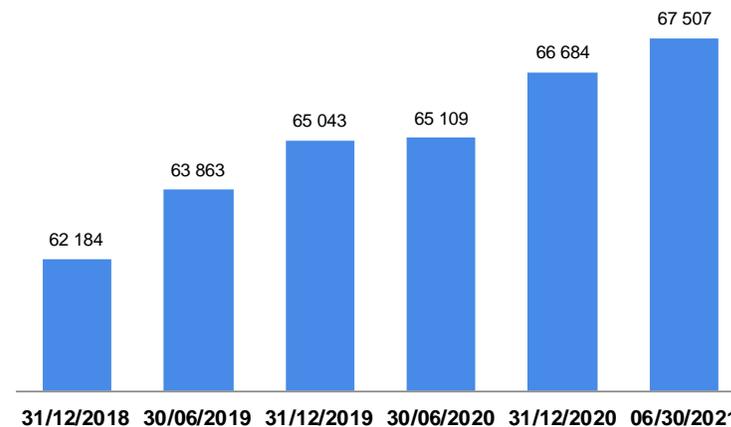
Decreasing operating cost in H1 2021

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

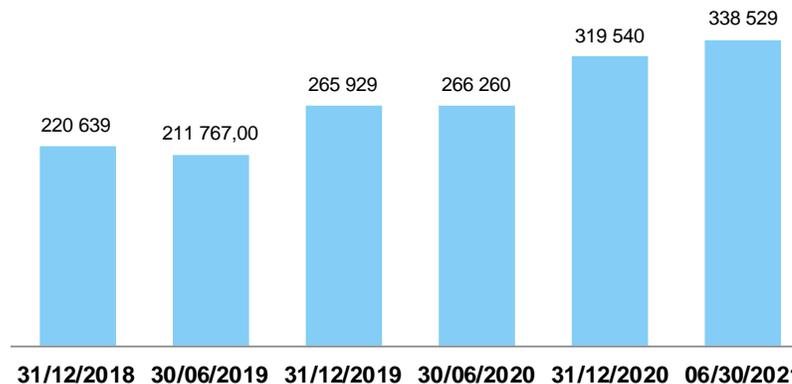
Balance sheet total (HUF million)



Shareholder's equity (HUF million)



Mortgage bond issued (HUF million)

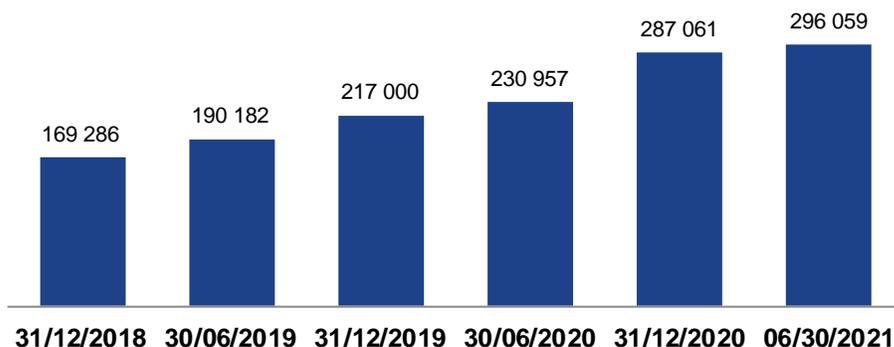


Balance sheet total retained
the uptrend in H1 2021

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

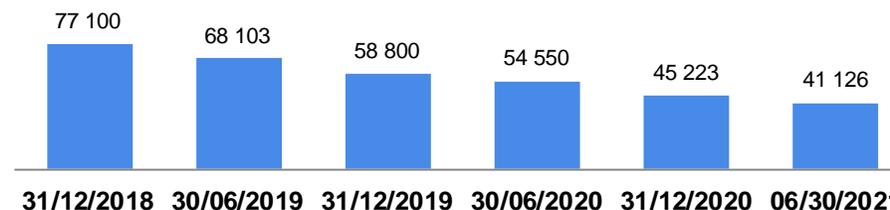
Refinanced mortgage loans

(HUF million)



Refinanced mortgage loan portfolio expanded by 28,2% YY in H1 2021

Own originated loans (HUF million)



Own originated loans diminish further in line with expectations, as own lending has ceased

Capital position and Basel II approach

HUFmn	Takarék Mortgage Bank		Consolidated capital adequacy	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Own Funds	65 868	63 717	268 604	276 185
TIER 1 Capital	65 868	63 717	268 604	276 185
Common Equity TIER 1 Capital	65 868	63 717	268 604	276 185
Additional TIER 1 Capital	0	0	0	0
TIER 2 Capital	0	0	0	0
RWA	104 384	97 238	1 577 350	1 538 456
Total Capital Ratio	63,10%	65,53%	17,03%	17,95%

- National Bank of Hungary has waived the application of the requirements set out in Parts Two to Eight of CRR to credit institutions of the Integration. Takarék Mortgage Bank Plc. are not obliged to apply Parts Two to Eight of CRR on an individual basis and the obligation for compliance with sub-consolidated level was also terminated.
- The members of the Integration Organisation should – with regard to the several liability system of the Integration – meet the prudential requirements on a consolidated basis.



7. APPENDIX



Regulatory framework I.



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

- ❑ 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. (Section 20 (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 excess 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.

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 been completed by June 8, 2021.

- Minimum mandatory OC level of 2% and 180-day liquidity buffer to be adopted in Hungary. The CRR regulation has been amended accordingly.
- Art. 17. Condition for extendable maturity structures: the maturity can only be extended once, the maximum extension period: 12 months.
- The 'European Covered Bond' logo and the 'European Premium Covered Bond' logo have been adopted
- Art. 15. The coverage requirements are supplemented with the expected costs related to maintenance and administration for the winding-down of the covered bond program. The amount of the lump sum was set by the Hungarian law at 1 thousandth of the mortgage bond portfolio issued by the mortgage credit institution and still in circulation.

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

Regulatory framework III.: Resolution Act

Special status of the covered bonds based on the Resolution Act



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

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



New JMM regulation - details

Tightening – JMM to reach 30% from 1 October 2022

Mitigation – From 1 July 2021, green funds (in the case of Partner Bank, refinanced green mortgages) can be counted at 150%

Limitation – green refinancing sources \leq face value of green mortgage bonds \rightarrow if the face value of green mortgage bonds is less than the total green mortgage loans, the amount of green refinancing mortgage loans to an institution outside the own credit institution group adjusted by the formula of the Regulation may be taken into account.

The JMM „*green mortgage*” definition:

- a) A mortgage loan granted to consumer secured by a mortgage on immovable property (independent lien),
- b) That meets the requirements set out in the Green Mortgage Bond Framework of the refinancing mortgage bank





MNB launched Green Covered Bond Purchase program

- The MNB's mortgage covered bonds purchasing program announced in April 2020, started from May 2020, while the central bank ceased its participation at auction in November 2020.
- The MNB stopped its secondary market purchases late from July 2021 in line with its green transition in monetary policy tools
- **The new MNB's focus is on the sustainability and the green thinking. In order to support the green covered bond issuances the central bank announced the Green Covered Bond Purchasing Program started in August 2021.** The MNB intends to purchase covered bonds on the primary and secondary markets with the following profile:
 - 'Green' based on GBP or CBI
 - 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
 - The issuer meets the extra green transparency requirements

Key green requirements:

- The green issue program is based on one internationally excepted standard (GBP, EU Taxonomy, CBI)
- Green Framework + SPO
- Extra reporting
- Data about the 'green lending activity', green/non-green mortgage loan ratio etc.



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