



ESG STRATEGY

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1. INTRODUCTION

Takarék Mortgage Bank Co. Plc. (hereinafter Takarék Mortgage Bank) devotes special attention to risks arising due to climate change, affecting its own operation as well as the society. Takarék Mortgage Bank has identified the specific characteristics of its business activities and profile (mortgage-based refinancing and mortgage bond issuance functions) which, if consciously harnessed and shaped, can have an impact on reducing climate risk and improving social welfare in the medium and long term.

As a member of the Group managed by MKB Bank Plc, Takarék Mortgage Bank is committed to achieving sustainability goals, in particular contributing to a low-emission society, promoting the widest possible distribution of environmentally beneficial products and services, reducing direct greenhouse gas emissions, operational transparency and gender pay equality (equal pay for equal work), and has prepared this ESG Strategy in line with the MKB Group's environmental, social, responsibility and corporate governance strategy. Takarék Mortgage Bank is also directly linked to the Group's ESG strategy through its specific credit institution activities and its stand-alone ESG activities, including those related to the existing Green Mortgage Bond Framework. For the preparation of the ESG strategy, Takarék Mortgage Bank carried out a materiality assessment with its internal and external stakeholders, the results of which have been taken into account in the preparation of this strategy.

This ESG Strategy sets out Takarék Mortgage Bank's identified values, mission and vision, based on which it has defined its sustainability objectives by themes. The ESG Strategy of Takarék Mortgage Bank has been approved by the Board of Directors on 10 August 2022, by its decree no. 37/2022 (10/08).

2. VALUES

2.1. SPECIALISED KNOWLEDGE

Takarék Mortgage Bank is a specialised credit institution with a special legal status, which carries out mortgage refinancing activities for credit institutions in Hungary and issues mortgage bonds on the capital market secured by the collateral of the mortgage loans. Takarék Mortgage Bank is distinguished from its competitors not only by its status as a mortgage bank, but also by its leading role in the refinancing market within the mortgage banking sector, its business structure, which is different from that of other domestic mortgage banks, and its roles in the capital market. Uniquely among the Hungarian mortgage banks – its shares have been traded on the Budapest Stock Exchange for almost 20 years, so the staff's knowledge of mortgage lending and mortgage bond issuance is complemented by experience in the stock market, cooperation with investors, distributors, credit rating agencies and compliance with the transparency requirements of being listed on the stock exchange.

As a result of the above, the employees of Takarék Mortgage Bank have specific professional knowledge, which it consciously takes into account in order to reduce potential operational risks arising from staff turnover. Participation in professional conferences, international professional events and membership of organisations ensures the strengthening of the position in the international professional circles and the channelling of international good practices into our own knowledge base.

2.2. UNIQUE FUNCTIONS

Mortgage based refinancing and mortgage bond issuance are both functions deriving from the specialised legal status, and are important elements of the Hungarian National Bank's monetary policy instruments – and, where necessary, of the fiscal policy (for housing loans there is an active state interest rate subsidy scheme in place). Through these functions, Takarék Mortgage Bank's activities – through the mortgage lending of the commercial banks it refinances – indirectly have a significant environmental and social impact, mainly by affecting the population's access to real estate and the quality of the housing stock (renovations, green mortgages).

2.3. CONNECTING ROLE

Since its foundation 25 years ago, Takarék Mortgage Bank has traditionally played an important role in intermediating savings and state interest subsidies, thus making mortgage loans with preferential interest rates available to a wide range of the population. Not only did it assist the access of the population to housing by providing affordable, long-term bank finance for the purchase of new and second-hand, as well as the construction of new homes – also as a direct mortgage lender until a change in strategy in 2018 – but it also contributed to the increase the number of energy-efficient homes, with loans financing modernization accounting for 5-7% of its mortgage portfolio.

Takarék Mortgage Bank is firmly embedded in the Hungarian financial system, both through its extensive network of partner banks, as well as its role in the capital markets. Through its core activities, it channels the savings collected by institutional investors – typically banks, fund managers and insurance companies – into the real estate market. It expects partner banks to provide mortgages that can be qualified as green, taking into account environmental and social considerations and in line with the Green Covered Bonds Framework developed by Takarék Mortgage Bank, to make their customers aware of green thinking that is closely linked to their daily lives, and to accelerate the integration of ESG considerations in their management decisions. For Takarék Mortgage Bank it is important to learn and use international trends and market best practices to play a prominent role within the MKB Group.

2.4. SOCIAL SENSITIVITY

Takarék Mortgage Bank takes into account the health and well-being of its employees and makes every effort to provide a good working environment. It supports home office, allows the presence of pets, and on an individual basis takes into account the needs of employees affecting their working patterns due to changes in their living conditions.

Takarék Mortgage Bank consciously places an emphasis on the retention and flexible employment of older colleagues with significant professional experience, and also on supporting young people starting their careers. As part of this, Takarék Mortgage Bank is joining the unified internship programme of MKB, which aims to create opportunities for young talent in Hungary in the banking sector, including the mortgage segment.

In its business activities, Takarék Mortgage Bank places emphasis on its social benefits and considers its potential social risks and impacts. Takarék Mortgage Bank sees it as its mission to increase the society's knowledge of mortgage lending and mortgage bonds. Independent of its business activities, it participates in sponsorships directly related to the education, upbringing and development of disadvantaged children.

2.5. INNOVATION SKILLS

In addition to the development of mortgage lending and mortgage bonds as a specialised bond market asset class, Takarék Mortgage Bank is also interested in digitalisation processes and the development of the real estate market through its market research activities, the development and application of a residential property and agricultural land price index, as well as the development of an automated property valuation system. Throughout its quarter of a century of activity, Takarék Mortgage Bank has continuously analysed and researched the real estate market, regularly publishing its experiences and research results, thus contributing to the modernisation of the sector. The consequence of these innovation skills is the development of the terms and conditions of the green mortgage bond and the green refinancing loan product, the application of which, according to the Green Covered Bond Framework, are key elements of Takarék Mortgage Bank's long-term business and ESG strategy.

The analysis and monitoring of real estate market trends and the application and further development of real estate valuation methods are integral to the operation of the mortgage bank. Takarék Mortgage Bank is committed to improving the real estate valuation process and to exploiting digitalisation solutions. Thanks to its several years of intensive development, Takarék Mortgage Bank has the AVM (Automated Valuation Method) model methodology, which is expected to become one of the dominant products in the domestic market in the future. Digitalisation and innovation can improve the housing conditions of the Hungarian population, giving them access to more modern and environmentally friendly homes, while also introducing them to green finance.

3. MISSION

Its activities will enable Takarék Mortgage Bank to contribute to the EU and national de-carbonisation and sustainability targets, and to the gradual greening of the Hungarian real estate stock, which can mainly be realised through the issuance of green mortgage bonds. In parallel to the above, Takarék Mortgage Bank aims to improve the sustainability awareness of the players of the Hungarian financial system and customers.

As a member of the MKB Group and as the only mortgage bank in the banking group, the primary mission of Takarék Mortgage Bank is to contribute to the shift towards sustainability by issuing green mortgage bonds that meet international standards, with the aim of ensuring that the proceeds are used for green purposes in a prudent and transparent manner, with appropriate controls.

4. VISION

Takarék Mortgage Bank aims to remain the dominant player in domestic mortgage lending and within such the mortgage-based refinancing, responding to market expectations and adapting to the challenges of the current economic and capital market environment.

Takarék Mortgage Bank is committed to promoting the development of mortgage lending products among its partner banks, as a result of which green and social factors will be taken into account in future housing lending. Based on the expectations of Takarék Mortgage Bank social value-added lending will play an increasing role in domestic and international financial systems.

The mortgage bank intends to actively participate in the development of the domestic „sustainable mortgage bond” market, issuing mortgage bonds whose underlying collateral is considered sustainable not only in terms of addressing climate risks, but also in terms of social utility (social housing programmes, financing projects, renovations). In the transition period leading to the issuance of sustainable mortgage bonds, Takarék Mortgage Bank aims to remain one of the leading domestic issuers in the green domestic mortgage bond market.

5. THE GOALS OF TAKARÉK MORTGAGE BANK'S ESG STRATEGY

Takarék Mortgage Bank shall define its ESG strategy and strategic objectives based on the values, mission and vision set out above. The ESG strategy of Takarék Mortgage Bank shall follow three general orientations – these are the „base pillars” – based on which the specific ESG strategic objectives have been defined.

MISSION

Issuing green mortgage bonds that meet international standards and use the proceeds for green purposes in a prudent and transparent way. Furthermore, Takarék Mortgage Bank is committed to improving real estate valuation processes, and to exploiting digitalisation solutions.

VISION

A key role in domestic mortgage refinancing and green mortgage bond issuance. Supporting the development of mortgage lending products with green and social elements, creating a market basis for „sustainable mortgage bonds”.

STRATEGIC PILLARS

Prominent role in MKB Group's sustainability efforts

Developing a product portfolio that promotes sustainability

Full digitalisation and continuous control of IT data security

STRATEGIC OBJECTIVES

Responsible corporate governance | Promoting products and services with environmental benefits
Equal opportunities | Ensuring responsible growth
Transparency | Contributing to a low-emission society

In order to achieve the above general strategic orientations, our specific strategic objectives supporting the ESG strategy have been identified in relation to the main themes identified as a result of the Takarék Mortgage Bank materiality assessment (see Annex). These have been used to develop the thematic areas and action points to support the implementation of this strategy.

Takarék Mortgage Bank has assigned KPI's, i.e. key performance indicators to the strategic objectives, and along such KPI's it aims to continuously monitor the achievement of each objective, using the Sustainability Report as a direct tool.

The strategic objectives set out below also contribute to the achievement of some of the UN Sustainable Development Goals. Of the 17 Sustainable Development Goals the strategy outlined below addresses the following (in the order they appear in the text):

- 13** Combating climate change,
- 5** Gender equality,
- 10** Reduce inequality,
- 3** Health and well-being,
- 8** Decent work and economic growth,
- 11** Sustainable cities and communities.

5.1. RESPONSIBLE CORPORATE GOVERNANCE

As a player in the credit institutions sector, and within such, as a mortgage bank subject to stricter supervisory rules compared to commercial banks, and as an active issuer of securities, Takarék Mortgage Bank is committed to compliance with the all-time legislation. In addition to preserving its integrity, in order to preserve its good reputation in the securities market and the stock exchange, for Takarék Mortgage Bank it is a priority to ensure that it operates in compliance with the law and is prepared in a timely manner for expected changes in the regulatory environment.

The above and their continuous control is ensured by Takarék Mortgage Bank Compliance and Takarék Mortgage Bank's Internal Audit function. In addition to updating internal policies and business processes – in particular with regard to mortgage lending, mortgage refinancing, mortgage bond issuance, the management and valuation of collateral and property – Takarék Mortgage Bank intends also to focus on internal training to promote and ensure compliance with legislation in the relevant specialised areas, with particular attention to combating corruption, preventing anti-competitive behaviour, and complying with environmental regulations.

Key performance indicator	Time	Target value ¹	Responsible area
Number of legal proceedings concerning anti-competitive behaviour and the infringement of antitrust and monopoly regulations	Continuous	0	Compliance
Percentage of employees receiving information and training on anti-corruption policies and procedures compared to the total.	Every year	100%	HR
Total amount of monetary losses incurred as a result of legal proceedings relating to communications or remuneration.	Every year	0	Compliance

¹The actual values will be published in the Sustainability Report for that year.

5.2. PROMOTING PRODUCTS AND SERVICES WITH ENVIRONMENTAL BENEFITS



Within the framework of the Mortgage Loan Companies Act (Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds), which mainly defines Takarék Mortgage Bank's business, it focuses on mortgage refinancing, which it can use to indirectly support the achievement of climate goals primarily through financing the purchase and renovation of energy-efficient properties, i.e. green mortgage lending. To this end, Takarék Mortgage Bank wishes to maintain a contractual business relationship with its partner banks in which they commit to the lending objectives and process and other transparency requirements related to green refinancing as defined by Takarék Mortgage Bank.

The objective of Takarék Mortgage Bank's strategy is to gradually increase the proportion of eligible green mortgage loans, as defined under the current Green Mortgage Bond Framework (Framework), within the total refinanced portfolio. In parallel with increasing the weight of the green lending referred to above, Takarék Mortgage Bank will also seek to increase the proportion of its issued green mortgage bonds that are the source of these loans in its total issued mortgage bond portfolio – in line with the requirements of the Framework. Takarék Mortgage Bank undertakes to review its Framework from time to time (at least annually) and, if necessary, to adapt it to domestic and international regulations and market trends.

From time to time in the course of its business, Takarék Mortgage Bank accumulates a certain volume of liquid assets on its balance sheet, primarily for the purpose of providing a supplementary collateral and liquidity buffer related to the mortgage bonds. Its liquid asset portfolio – as required by law – typically consists of government bonds, bank bonds, bonds of supranational issuers and the mortgage bonds of other mortgage banks. In 2022, Takarék Mortgage Bank started to increase the proportion of green securities in its management of this liquid asset portfolio, with the proceeds from the issuance of these securities being used for green purposes by the issuers of these types of securities.

Takarék Mortgage Bank considers both its own and refinanced loan portfolio as well as its liquid securities portfolio to be subject to positive or negative environmental and social due diligence.

Key performance indicator	Time	Target value	Responsible area
Increasing the share of refinanced green mortgages in the total refinancing portfolio (date of the basis value: 31.12.2021)	2025	15%	Refinancing
Green mortgage bonds outstanding as a share of total outstanding mortgage bonds	2025	15%	Capital market
Share of green and sustainable assets in the liquid asset portfolio	2023	5%	ALM

5.3. EQUAL OPPORTUNITIES

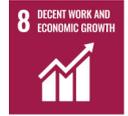


Takarék Mortgage Bank has traditionally been characterised by low staff turnover, which is a key factor in the Bank's stable operations and market share. Accordingly, the specialised credit institution is run by a professionally well-trained workforce with a corporate culture that recognises community and individual values. This helps the bank to maintain its market share of around 20% in the Hungarian mortgage lending market, i.e. mortgage lending and refinancing and mortgage bond issuance. In addition to the specialised activity, the need to adapt to changes in the market environment is coupled with a readiness to innovate on the part of employees, which requires the conscious maintenance of this corporate culture over the long term.

To this day, Takarék Mortgage Bank's solid market position and quality partnerships are based on its highly experienced staff, therefore the key objective of the sustainability strategy is to ensure that Takarék Mortgage Bank remains an inspiring and attractive place to work also in the future. Ensuring full equality of opportunity is an important part of this attractiveness. To achieve the objective of improving equal opportunities, it is necessary to organise skills development trainings – management trainings and other internal professional trainings – to support the long-term retention of employees and the development of their skills. With the well-being of our staff in mind, we plan to place an even greater emphasis on the physical, mental and social health. This is to be achieved, among other things, through flexible management of employees' working hours, support for working from home, humane handling of special life situations, and continued employment of retired colleagues with flexible working hours. Takarék Mortgage Bank intends to measure employee and partner satisfaction on a regular basis in the future, with a methodology to be developed in the coming years.

In the future, the Takarék Mortgage Bank intends to put more emphasis on increasing financial literacy among disadvantaged social groups, which can be promoted through its existing sponsorship activity – the "House of Schoolchildren along the River Hernád – The Port of Love".

Key performance indicator	Time	Target value	Responsible area
Increasing the proportion of women in senior positions (date of the basis value: 31.12.2021)	2025	10%	HR
Increasing satisfaction with the quantity and quality of training (date of the basis value: date of the first measurement)	2025	20%	HR



5.4. ENSURING RESPONSIBLE GROWTH

The integration of sustainability considerations into the business strategy and risk policy is expected to be required by further recommendations and legislation in the future, to which Takarék Mortgage Bank intends to adapt, as it wants to set a good example to its partners in making its operations more transparent and in enhancing transparency on environmental and social impacts. The continuous development of Takarék Mortgage Bank's Green Mortgage Bond Framework plays a key role in achieving sustainable growth as a key strategic objective. Also of particular importance is the **ESG Development Roadmap** (see Annex) undertaken by Takarék Mortgage Bank on the basis of the BSE ESG Reporting Guide², which foresees that by 2025 it will reach the highest level of ESG reporting under the BSE, which is the integrated reporting level, and will also obtain ESG assessment.

Another pillar of sustainable operations is the integration of sustainability considerations into the risk policy and risk management rules. Takarék Mortgage Bank, as a member of the MKB Group, applies the Group level risk management framework, which covers material sustainability risks for the Group. Takarék Mortgage Bank aims to manage the risk categories that are considered material to its own operations – primarily those related to mortgage lending and the real estate market, green securitisation and liquidity management – in its Group level risk policy, in line with the Green Mortgage Bond Framework.

Key performance indicator	Time	Target value	Responsible area
Implementation of the ESG development roadmap	2025	completing scheduled reports on time ³	Capital market

²<https://www.bet.hu/Kibocsatok/Ajanlasok-kibocsatoknak/bet-esg-/esg-guide>

³See the detailed schedule on page 15

5.5. TRANSPARENCY

It is a key strategic objective of the Bank to ensure the transparency of business and sustainability factors. Takarék Mortgage Bank enhances its reputation and competitiveness by regularly disclosing credible data and information on its operations, progress and values to its partners, investors, regulatory and supervisory authorities and rating agencies. Recently, numerous new international ESG recommendations have emerged, requiring, among other things, banks, their financial products and their operations to take into account and demonstrate a broad range of environmental, social and governance considerations.

In 2021, Takarék Mortgage Bank has started preparations to comply with legislation and other regulatory and investor requirements, including the preparation and publication of its first own ESG strategy and report. The definition of performance indicators and target values for measuring the achievement of the strategic objectives is carried out for the first time in this strategy document.

Strengthening transparency will stabilise Takarék Mortgage Bank's market share, therefore we consider it essential that ESG tasks are carried out, monitored and coordinated by a dedicated area within Takarék Mortgage Bank's operations. Takarék Mortgage Bank commits to organise an ESG area within a year, one of the main tasks of which will be to build and operate information channels towards the management, as well as organise ESG-related trainings and sensitivising programmes for both management and staff.

During the development of this Sustainability Strategy and in support of the preparation of the separate Sustainability Report for 2021, Takarék Mortgage Bank carried out a materiality assessment involving external and internal stakeholders. In order to gauge objective perceptions of Takarék Mortgage Bank, the Bank intends to conduct a partner satisfaction survey for the first time in its operations in 2023, which will be repeated at least every two years.

Key performance indicator	Time	Target value	Responsible
Setting up a function responsible for sustainability	2023	integration of a dedicated area of expertise into the Organisational and Operational Rules (OOP), approval of the rules	CEO
Keeping the number of abuses at the target value	2025	0	Compliance area
Partner satisfaction survey	2023	Performance of the survey	Capital market function



5.6. CONTRIBUTING TO A LOW-EMISSION SOCIETY

Contributing to a low greenhouse gas (GHG) emitting society is at the heart of Takarék Mortgage Bank's sustainability ambitions, and the Bank can influence this through a number of channels. Directly linked to its core business is the strategic objective of ensuring that its green refinancing loan product reaches the widest possible range of partner banks – and thus indirectly the widest possible range of customers – and also that its green mortgage loans reach the widest possible range of investors. In order to achieve this objective, Takarék Mortgage Bank's Green Mortgage Bond Framework sets out a set of criteria for green lending and eligible green loans and real estate collateral, which the partner banks participating in green refinancing accept by signing individual refinancing contracts. The long-term goal of Takarék Mortgage Bank is to engage the broadest possible range of partner banks in the existing Green Mortgage Bond Framework and to contribute to the reduction of greenhouse gas (GHG) emissions from the financed real estate portfolio by increasing the weight of green loans in partner bank lending.

Another channel for contributing to a low-emission society is the long-term reduction of Takarék Mortgage Bank's own GHG emissions. In the case of Takarék Mortgage Bank, it is important to highlight that, due to its operation, the GHG emission impact of the financed real estate stock significantly exceeds its own GHG impact in the long term. GHG emissions are the Takarék Mortgage Bank's CO₂ emissions arising from energy use directly related to the floor area of the property it rents. Takarék Mortgage Bank started measuring this in 2022, and based on such data it intends to set a target starting from 2023.

Key performance indicator	Time	Target value	Responsible area
Increase in annual average savings in CO ₂ emissions per square metre of real estate collateral backing refinanced loans (date of the basis value: 31.12.2021)	2027	20% increase	Refinancing/ALM/ Capital market
Reduction of Scope 1 and Scope 2 emissions (date of the basis value: 31.12.2021)	2027	20% reduction	Operation and maintenance

6. SUMMARY

The purpose of this ESG strategy is to provide a framework for the short- and long-term sustainability-oriented operation of Takarék Mortgage Bank Co. Plc. Based on the values set out in the strategy, the Takarék Mortgage Bank aims to continue its operations in a sustainable manner and to achieve its objectives. In order to measure the achievement of each of the objectives set, performance indicators and related target values have been formulated and will be monitored in the future. In parallel with creating its ESG strategy, Takarék Mortgage Bank has also produced its first sustainability report for 2021 (available on the website of Takarék Mortgage Bank), which fits in with the ESG reporting timetable below.

The schedule of Takarék Mortgage Bank's reporting strategy:

ESG category	2022	2023	2024	2025
Type of publication (stand-alone or integrated)	Stand-alone	Stand-alone	Stand-alone	Stand-alone
Frequency of publication (yearly, quarterly)	Yearly	Yearly	Yearly	Quarterly update
Format of the report (basic or standardised)	Report according to GRI	Report according to GRI	Report according to GRI	Report according to GRI
Certification by an external party (yes, no)	No	No	No	No
Objectives (yes, no, is there any monitoring?)	No	No	ESG objective	ESG objective
ESG category (level) throughout the year (where it can be categorised based on its existing elements)	Intermediate level	Intermediate level	Intermediate level	Advanced level
Development goals until the end of the year for reaching the next level	Usage of standard	Preparation of defining the ESG goals	Incorporation of ESG objective	Preparation for the definition of Science Based Targets in 2026.
Planned measures by the end of the reference year (e.g.:	<ul style="list-style-type: none"> Getting to know the GRI standard Analysis of good practices of the sector Materiality assessment and stakeholder mapping/survey of responsibilities/ definition of the dedicated ESG tasks Compilation of the report Setting up the processes for data collection and processing 	<ul style="list-style-type: none"> Development of the implemented processes Drafting the ESG objectives for the short, medium and long term 	<ul style="list-style-type: none"> Preparation for the quarterly reporting 	<ul style="list-style-type: none"> Preparation for the definition of Science Based Target, assessing related resources and cost factors Conducting the selection process for an external party for limited external assurance

7. ANNEX

List of themes identified as a result of the materiality assessment, in order of materiality

1. Avoiding anti-competitive behaviour, anti-corruption
2. Compliance with legislation
3. Transparency
4. Protection of customer data and cyber security
5. Prevention of fraud and security
6. Ethical operation
7. Ensuring responsible growth
8. Contributing to a low-emission society
9. Products and services with environmental benefits
10. Environmental impact of products and services
11. Managing environmental risks
12. Equal pay for equal work

