INVESTOR PRESENTATION

Takarék Mortgage Bank Co. Plc.

September 30, 2020

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

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.

1. INTEGRATION ORGANIZATION

Takarék Group's evolution

1957

Saving Cooperatives

Foundation of cooperative banks in the form of Saving Cooperatives

1989

MTB
(Called Takarékbank prior to April 2019)

Foundation of MTB

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

By the time of 2013

Pre-integration

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

2013

Integration Act

Changed the basic framework of the regulation related to the cooperative sector (*from 2020 integrated credit institutional sector* :)

- New body has been incorporated (Integration Organization of Cooperative Credit Institutions - IOCCI)
- New principles of liabilities have been introduced (cross guarantee)
- MTB has become the central bank of the integration (*from 2019 business governance function*)

2018-2019

Integration, mergers

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

2020

Integrated IT system

- From July 2020, Takarékbank operates with a unified IT system, serving all of its customers nationwide

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

Legal transformation of Takarék Group

Baseline

14 CCIs:
- B3
- Mohács
- Pannon
- 3A
- Békés
- Centrál
- Dél
- Fókusz
- Hungária
- Korona
- M7
- Nyugat
- Pátria
- Tiszántúl

Takarék Commercial Bank

MTB[1] (central bank)

Takarék Mortgage Bank

1. Phase (till 30.04.2019) ✓

New Takarékbank:
- 3 CCIs (fusion)
- MTB1 - only corporate & retail loans and deposits (portfolio transfer)

- 3A
- Békés
- Centrál
- Dél
- Fókusz
- Hungária
- Korona
- M7
- Nyugat
- Pátria
- Tiszántúl

Takarék Kereskedelmi Bank

MTB[1] (central bank)

Takarék Mortgage Bank

Takarék United Cooperative[2]

2. Phase (till 31.10.2019) ✓

New Takarékbank:
- **14 CCIs** *(fusion)*
- **MTB[1]** - only corporate & retail loans and deposits *(portfolio transfer)*
- **Takarék Commercial Bank** (fusion)

MTB[1] (business governor)

Takarék Mortgage Bank

Takarék United Cooperative[2]

✓ Completed phase

1 MTB was formerly called as Takarékbank.

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

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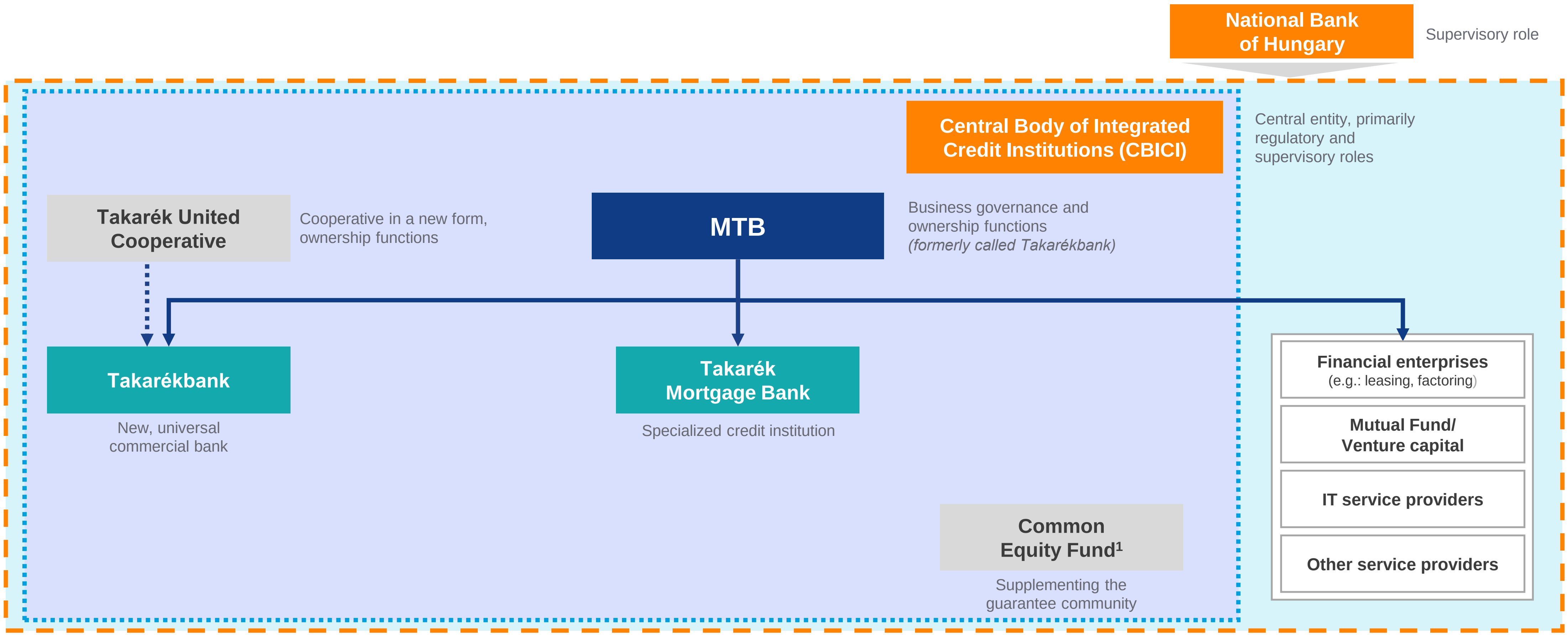
New structure – Members of the Integration



Takarék Group The Integration of Cooperative Credit Institutions 1: Will be integrated into CBICI in January 2021

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

Main goals of Takarék Group's strategy 2019-2023

Modernization, business renewal

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

Organizational renewal

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

Maintaining and refreshing traditions and values

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

A banking group with increasing profitability and financially sustainable operations

Sustainable annual 30 Bn HuF profit

10% market share

Significantly decreasing operating costs

✓ Completedt ✓ In progress

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

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

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

2. COMPANY OVERVIEW, OWNERSHIP & ORGANIZATION STRUCTURE, STRATEGY

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'

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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,
- Continuously increased 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

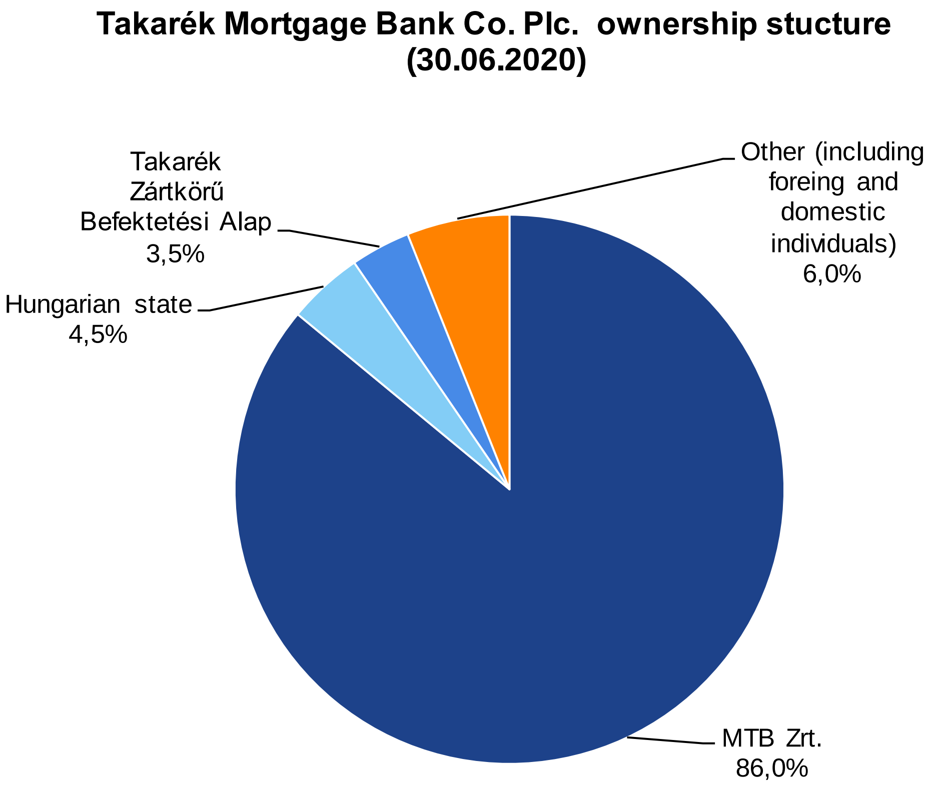
2017/ New ownership structure: MTB is the main owner

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 Ownership structure – Share of Integration members is over 85%



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

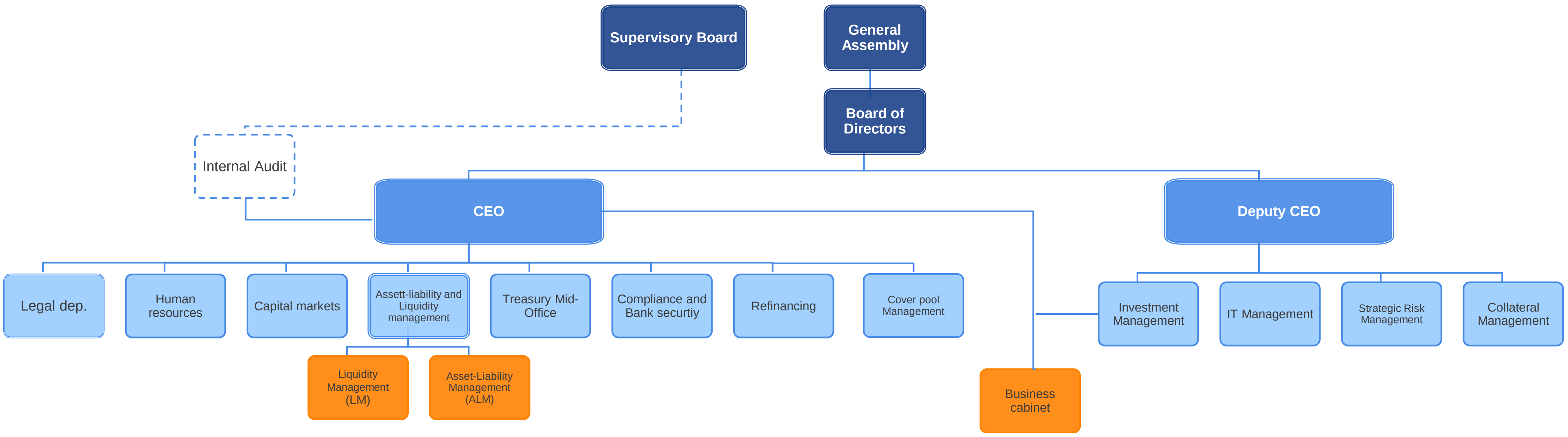
Attila Mészáros: internal member (MTB CRO since 11 October 2018

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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Strategy, growth targets – Takarék Mortgage Bank

Business strategy

- Pure refinancing mortgage bank model: TMB operates exclusively as mortgage bond issuer and refinancing center
- Expanding mortgage refinancing business: TMB provides mortgage refinancing service for the members of the Takarek 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: With the expiration of old subsidized retail loans and some project loans (together: ≈HUF 45 bn) still in theTMB's balance sheet
- Gradual restart of refinancing consumer mortgage loans

Main goals

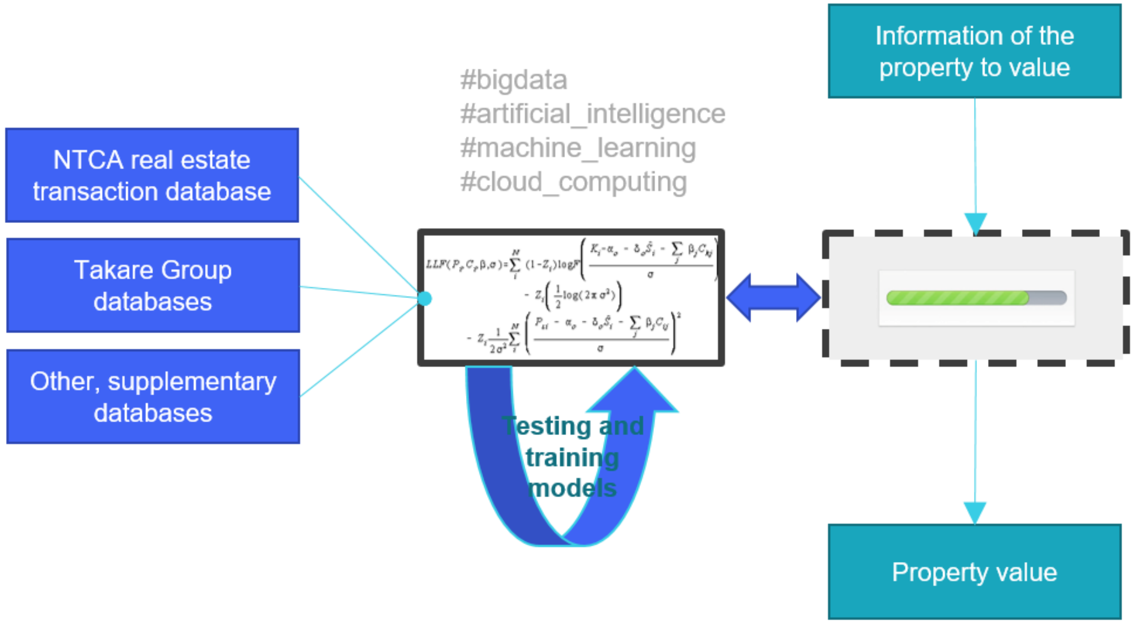
Covered bonds issuance

- Competitive pricing
- Increasing market volume
- Active ALM activity
- Increasing the strong investor base
- 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

Strategic services: AVM



AVM Automatic valuation

Developing the methodology which serves as a basis for lending decisions in Western Europe TMB expects to offset some effects of narrowing margins.

AI Artificial intelligence

The state-of-the-art methodology using the latest data analysis methods allows for more precise estimations compared to indexation.

COVID-support

Automatic valuation provides assistance in cases when personal on-site valuation is impossible to conduct due to health or other reasons.

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TMB's exclusive short term strategic targets

Sustainability, energy efficiency mortgage lending, social responsibility

National Bank of Hungary (MNB) announced a Green Program in February 2019.

Main goals:

- Facilitate the development of the environmental risk management of the domestic money and capital markets,
- Improve the conditions of green investments funding,
- Introduction of green finance in the local capital markets,
- Encourage the issuances of green mortgage bonds and green senior unsecured bonds
    - through Green Preferential Capital Requirements Programme
    - via facilitation of conditions of Mortgage Funding Adequacy Ratio

Under the Green Programme MNB is cooperating with other authorities and market participants.

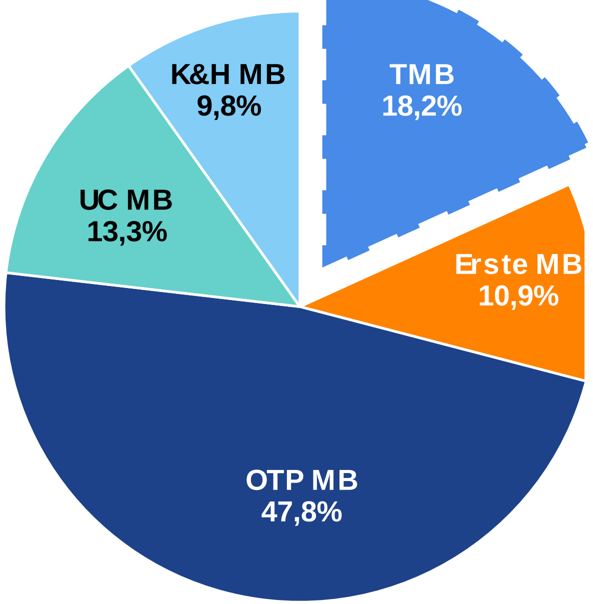
The local regulation is still under preliminary work, however it will be definitely based on the Principles of ICMA Green Bond Principles (ICMA 2017), or of Climate Bond Initiative (CBI).

TMB joined the MNB's Programme

- TMB participates actively in the „green" dialogue initiated by MNB,
- It started the preparatory work on mapping of the assets side, searching and marking the verified green mortgage loans already existing in the pool,
- It reviews the IT development needs for refinance the proven green loan portfolio,
- It examines the documentation of the green mortgage bonds to be issued under the green coverage,
- It explores the potential domestic investor base of the green mortgage bonds.

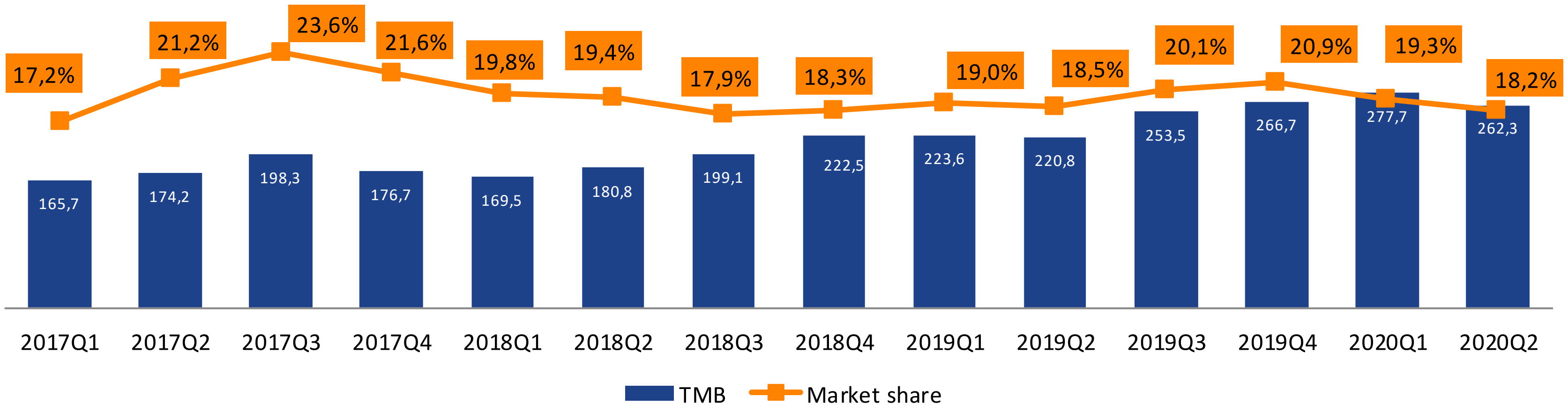
Market position - dominant player on the local mortgage refinancing market

Market share of local mortgage banks based on issued mortgage bond volume (2020 H1)



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

Outstanding mortgage bond volume



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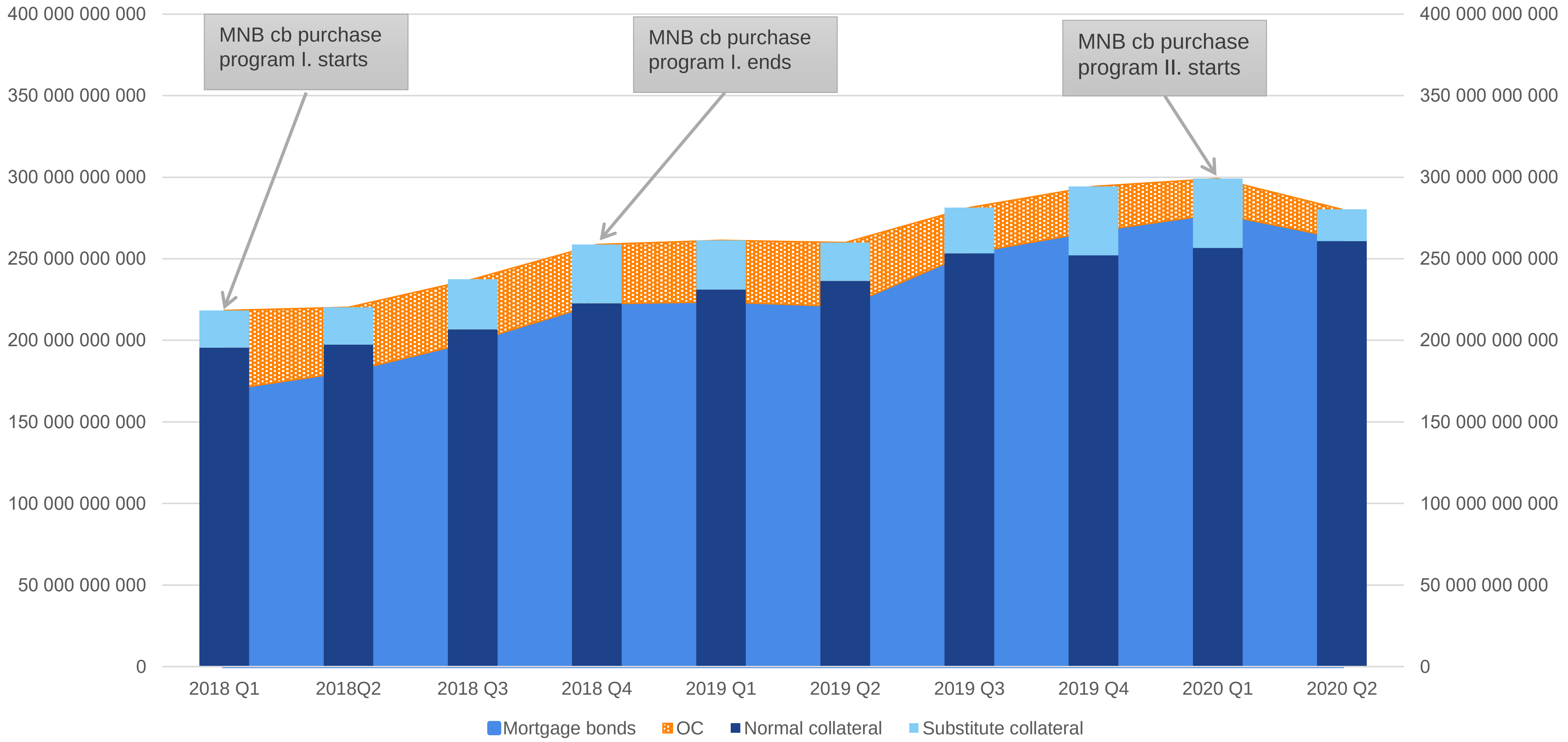
3. COVER POOL CHARACTERISTICS AND RISK PROFILE

Cover pool composition



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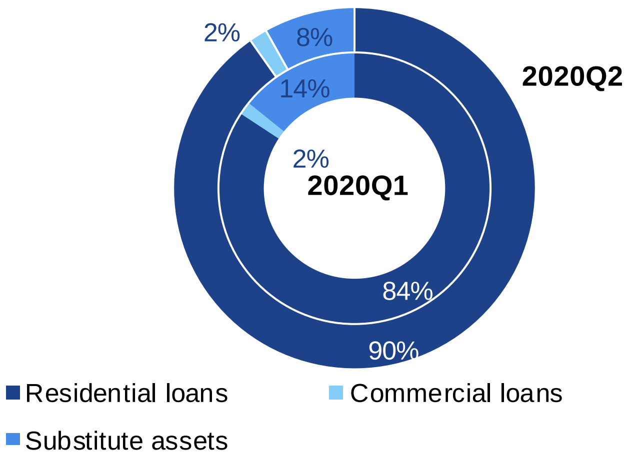
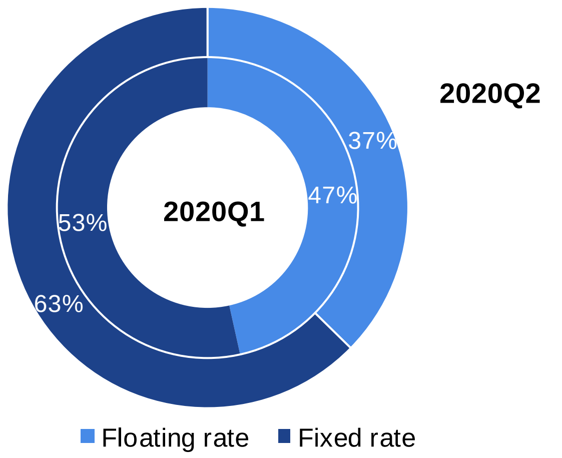
Cover pool characteristics, H1 2020

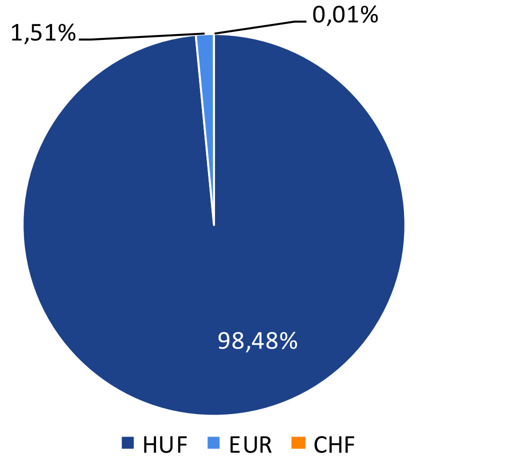
Asset types of cover pool



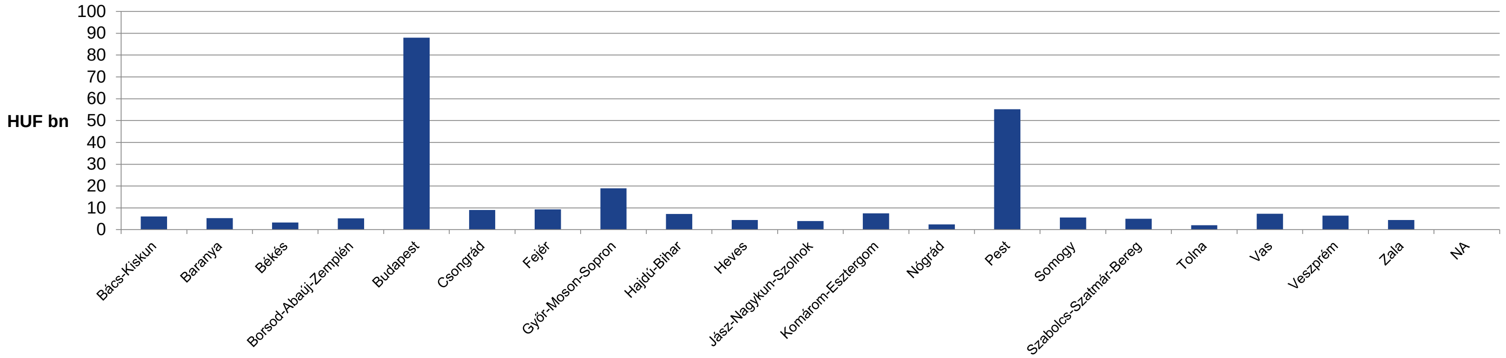
Interest rate distribution of cover pool



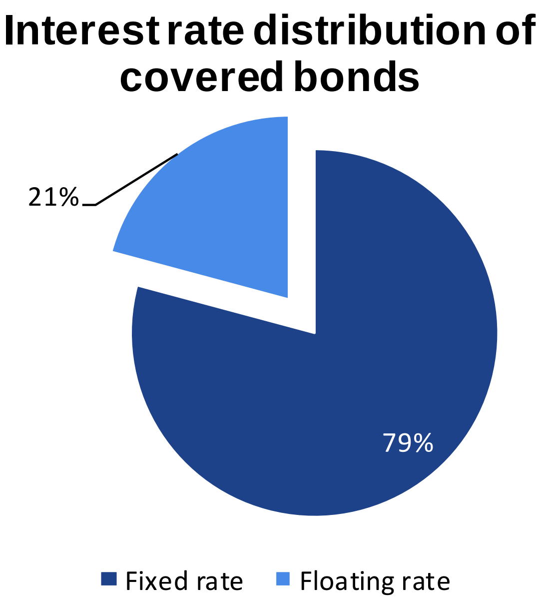
FX distribution of cover pool

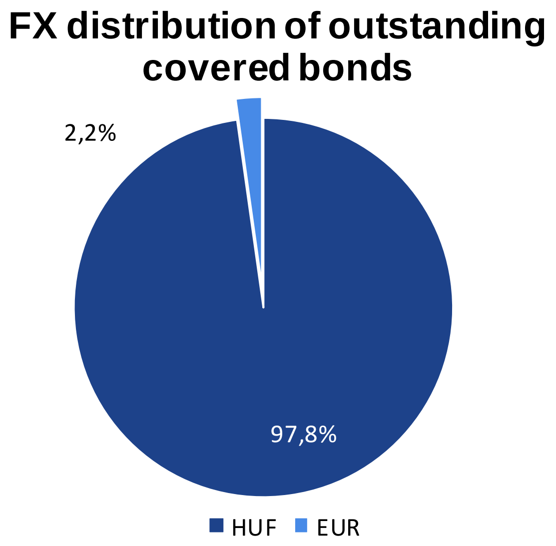


Loans by regions (HUFmn)



Cover bond portfolio characteristics and rating, H1 2020





Category	S&P's rating	Date of rating action
Local and foreign-currency denominated covered bonds	BBB stable Investment grade category	2020.05.12.

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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

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.

Risk mitigating factors

Regulation:

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

Cover pool monitor and banking supervision:

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

Cover assets:

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

TMB 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

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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.

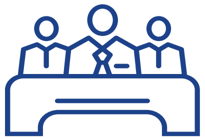
- **In case of the termination of the membership,** the joint and several liability of the Integration shall not cover the liabilities incurred after the termination date. The leaving member remains liable for the claims against the Integration Organization and its members incurred until the date of 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), or Integration Organization.

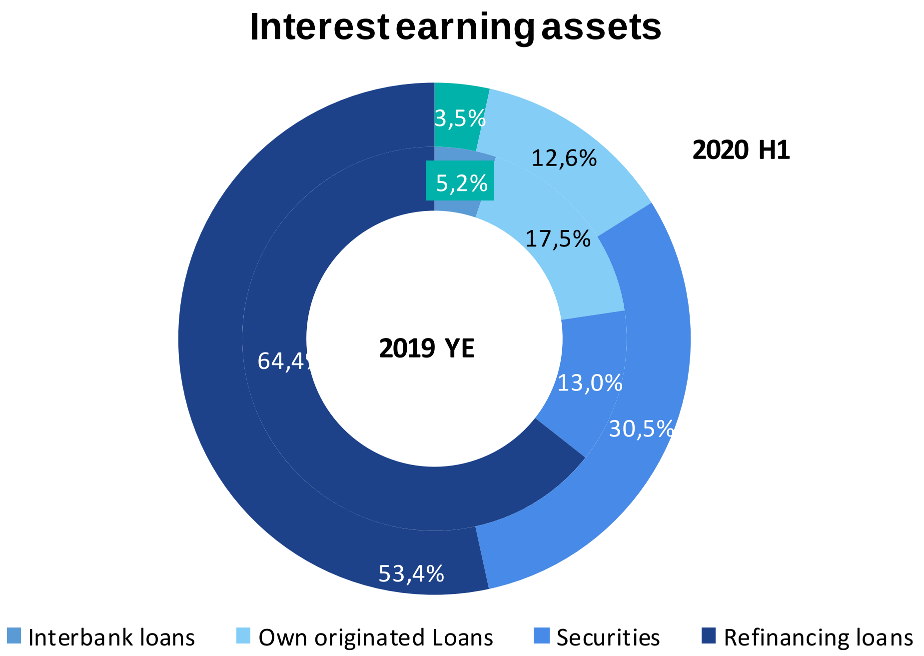


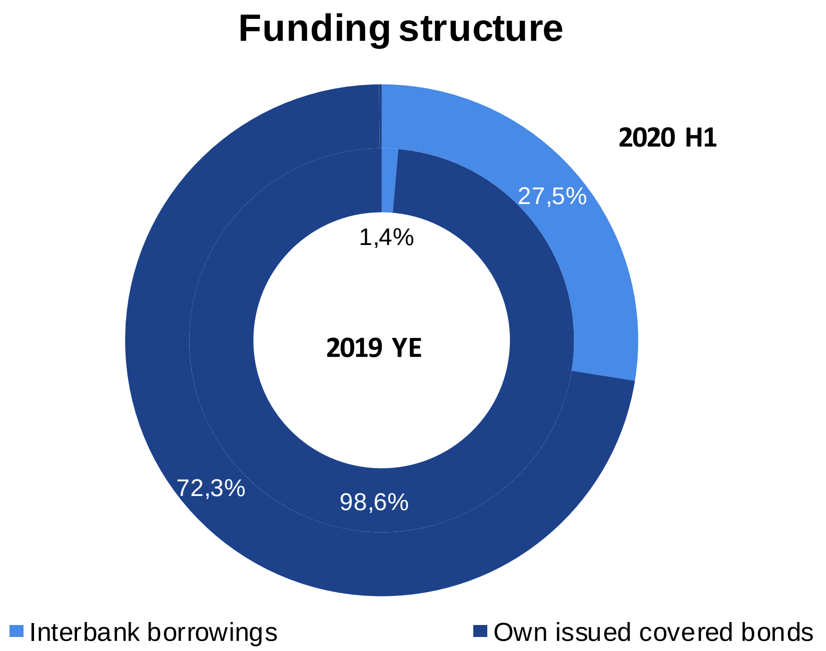
The most important governing members of the Integration

- 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)





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

- 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

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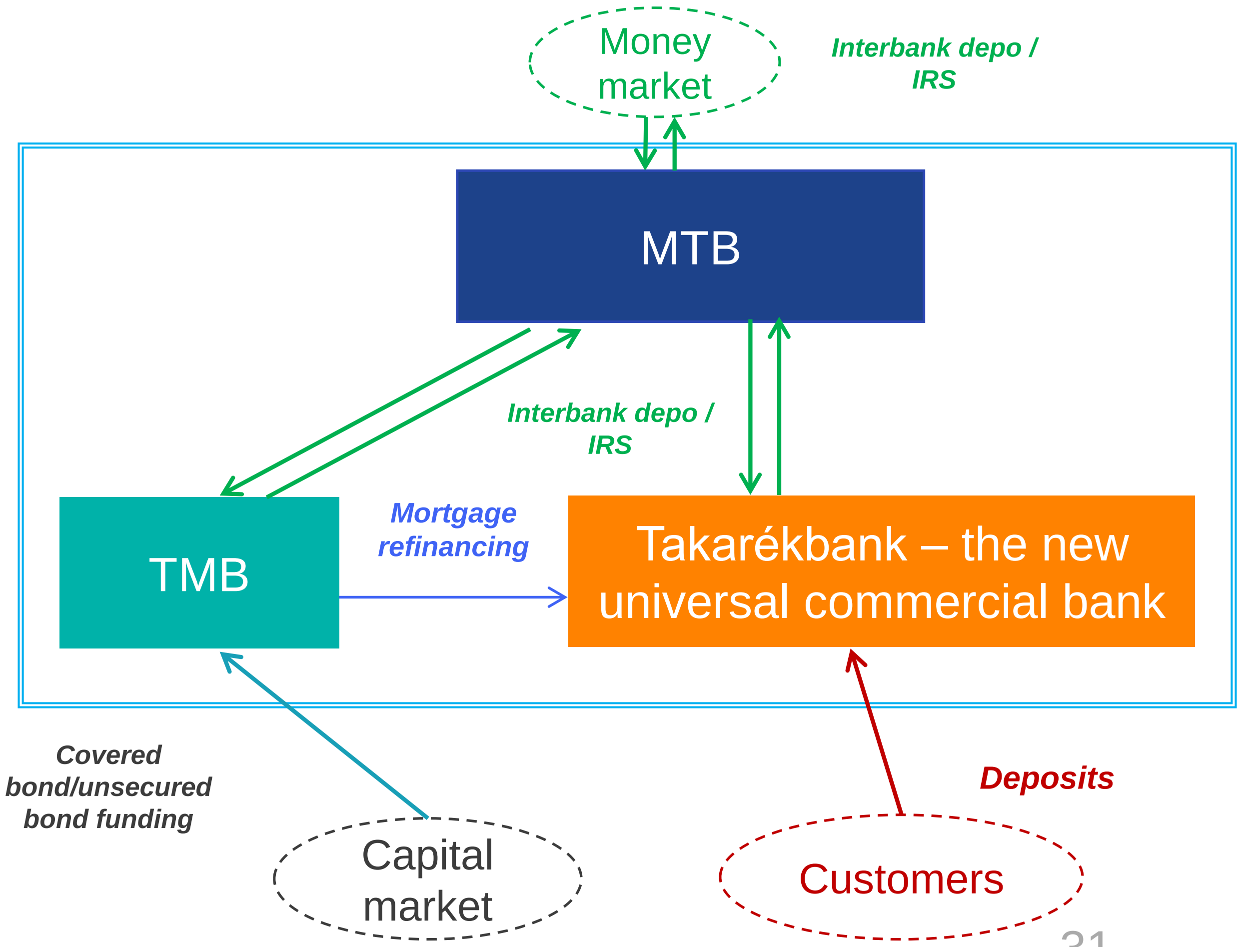
Structure of financial transaction within the Integration

- 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



Long-term funding strategy

General strategy

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

Covered bond issuance frequency : Monthly, Bi-monthly

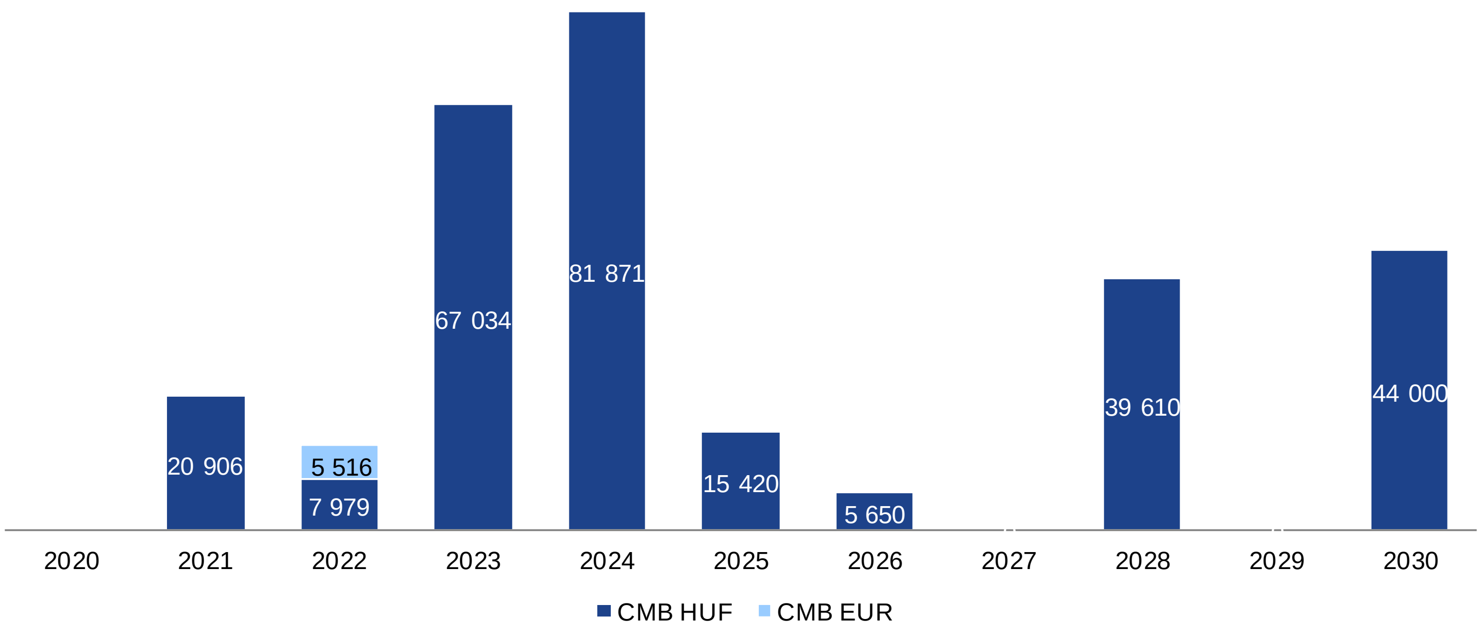
- Spread on fixed rate (typically 5Y) issuance (maximum yield) : Government vond benchmark +40 - 50 bp
- Spread on floating rate issuance: BUBOR+ 70-80 bp (last issue: Q1 2020)
- Tenor: 5-7-10 year
- Volume per auction/subscription: up to HUF 5.0-15.0bn
- Distribution: through 4 mandated dealers, auctions: BSE
- Annual average HUF 70-90bn (driven by refinancing partners)

Annual update of the Base Prospectus

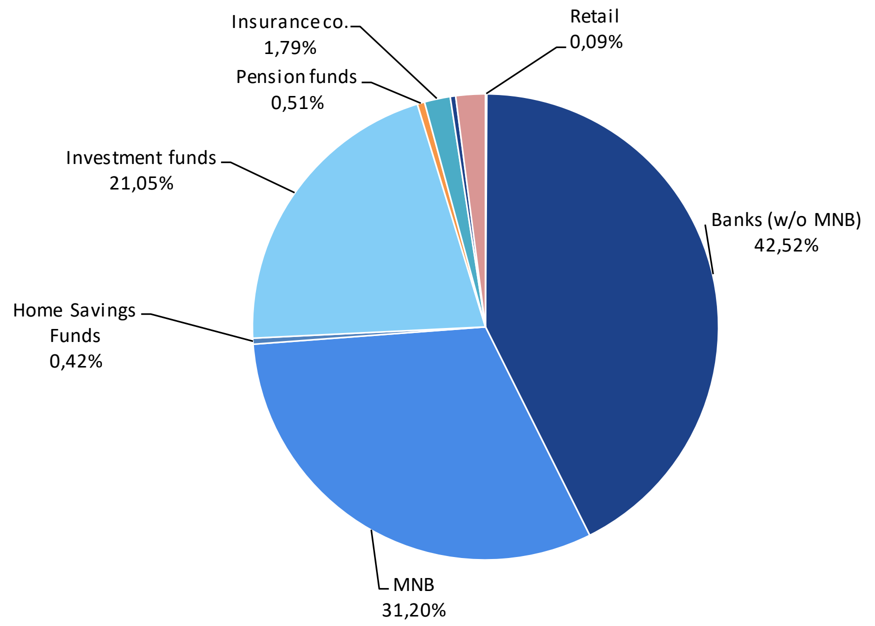
- Supervisory approval is needed
- Based on Hungarian and EU regulations
- Denomination: CHF, EUR, HUF and any other European currency outside the Eurozone
- Total volume: HUF 200bn, optional listing
- Eligible security types under program: covered bonds and senior unsecured bonds

Covered bond and unsecured bond maturity profile and investor base

Maturity profile, as of 1st of September, 2020 (HUFm)

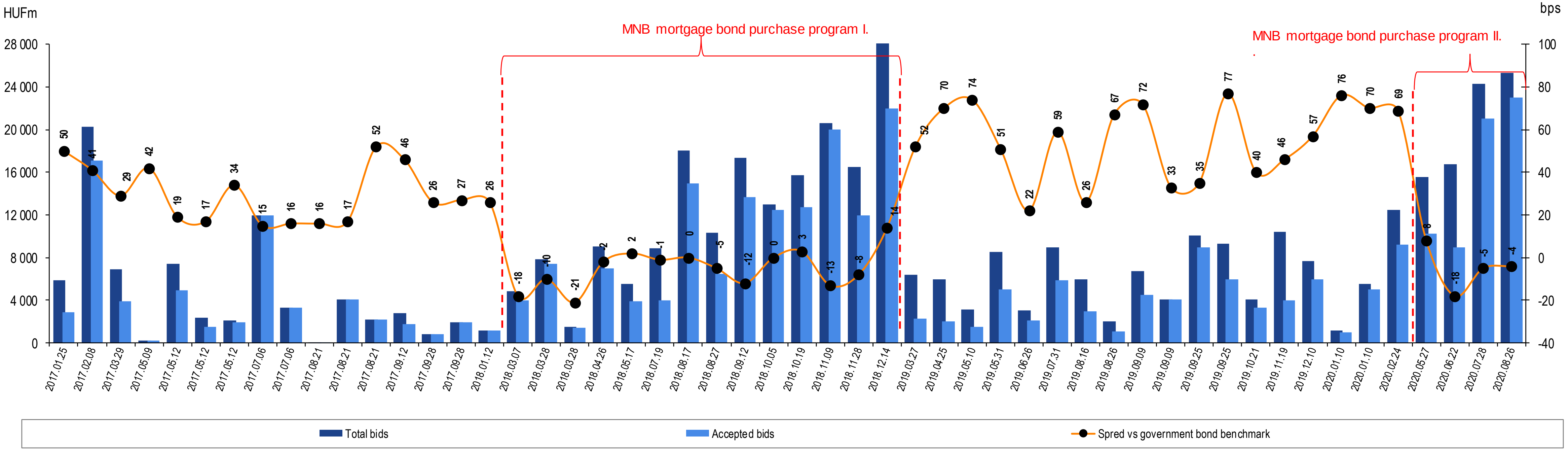


Takarék Covered Bond investors as of September 01, 2020 (in % of outstanding amount at the time of issuance)



Covered bond issuance: volumes and spreads vs HGB benchmark

Public Covered Bond Issuances auctions/subscriptions



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6. FINANCIAL INFORMATION

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

HUF million	H1 2019	End-2019	H1 2020	Change: H1 2020/H1 2019	Change : end-2020./end-2019
Major indicators					
Total assets	329 084	342 897	435 129	32.2%	26.9%
Refinanced loans	190 348	216 983	230 957	21.3%	6.4%
Own originated loans (gross)	70 129	58 818	54 550	-22.2%	-7.3%
Issued covered bonds	211 767	272 481	266 260	25.7%	-2.3%
Interbank funding	17 787	3 710	101 383	-	-
Shareholder’s equity	63 863	65 043	65 109	2.0%	0.1%

Balance sheet total increased both in YoY an HH terms

Refinanced loan volume increased further

Own originated loan volume shrinks gradually, in line with the ‚refinancing mortgage bank’ profile

Outstanding covered bond volume increases in YoY terms, but modest drop took place vs end-2019 due to large maturities

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

millió forintban	H1 2019	End-2019	H1 2020	Change: H1 2020/H1 2019	Change : end-2020./end-2019
Profitability indicators					
Net interest income	1 165	1 398	1 309	12.4%	-6.4%
Net interest margin	***0.71%***	***0.83%***	***0.67%***	***0.0%-pt***	***-0.2%-pt***
Net fee and commissions income	64	91	85	32.8%	-6.6%
Operating income net	2 605	2 899	2 650	1,7%	-8.6%
Provisions for impairment on loans losses	317	63	-106	-	-
Operating cost	-1 751	-1 586	-1 409	-19.5%	-11.2%
Cost to income ratio	***67.2%***	***58.7%***	***53.2%***	***-14%-pt***	***-5.4%-pt***
Cost to income ration w/o special banking tax	***63.6%***	***59.3%***	***50.9%***	***-12.7%-pt***	***-8.4%-pt***
Profit for the period	**1 091**	**1 049**	**1 128**	**3.4%**	**7.5%**
Profit after tax w/o special banking tax	**1 184**	**1 030**	**1 190**	**0.5%**	**15.5%**
EPS	***10.08 Ft***	***9.69 Ft***	***10.42 Ft***	***3.4%***	***7.5%***
Return on Average Assets (ROAA)	***0.66%***	***0.62%***	***0.58%***	***-0.1%-pt***	***0.0%-pt***
Return on Average Equity (ROAE)	***3.49%***	***3.23%***	***3.48%***	***0.0%-pt***	***0.2%-pt***
ROAA w/o special banking tax	***0.72%***	***0.61%***	***0.61%***	***-0.1%-pt***	***0.0%-pt***
ROAE w/o special banking tax	***3.79%***	***3.17%***	***3.67%***	***-0.1%-pt***	***0.5%-pt***

HUF 1.1bn profit after tax in H1 2020

Improving cost to income ratio

Unchanged ROAA, but modest increase in ROAE in the examined H1 2020 period

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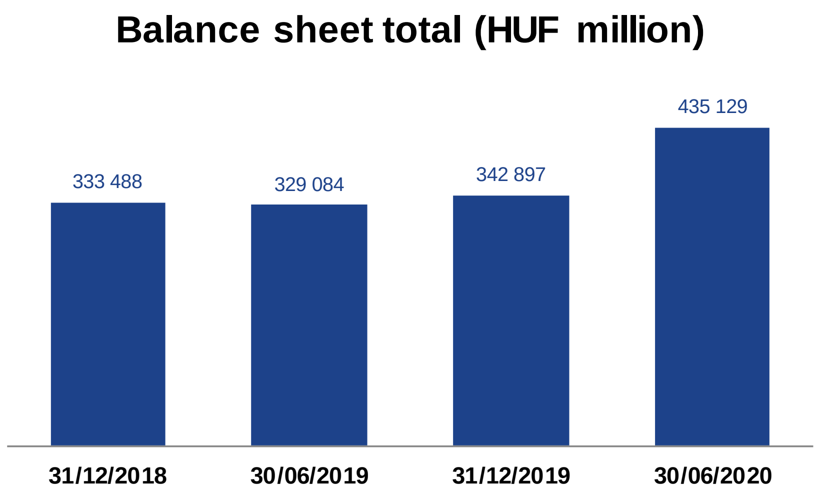
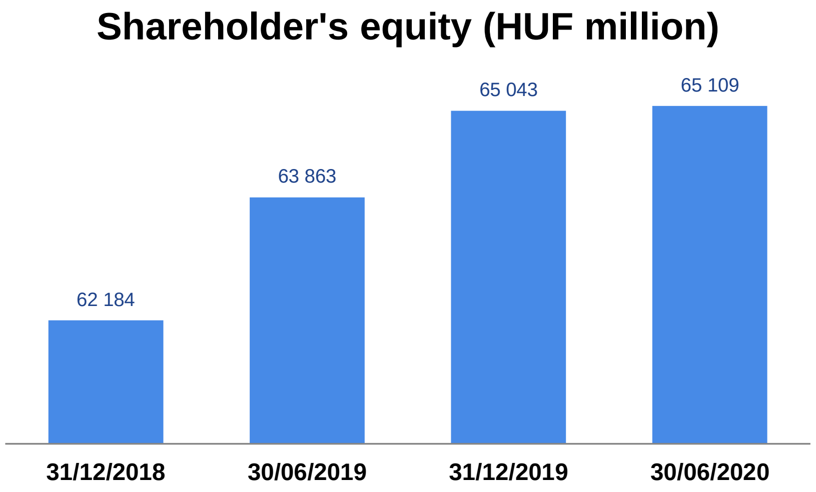
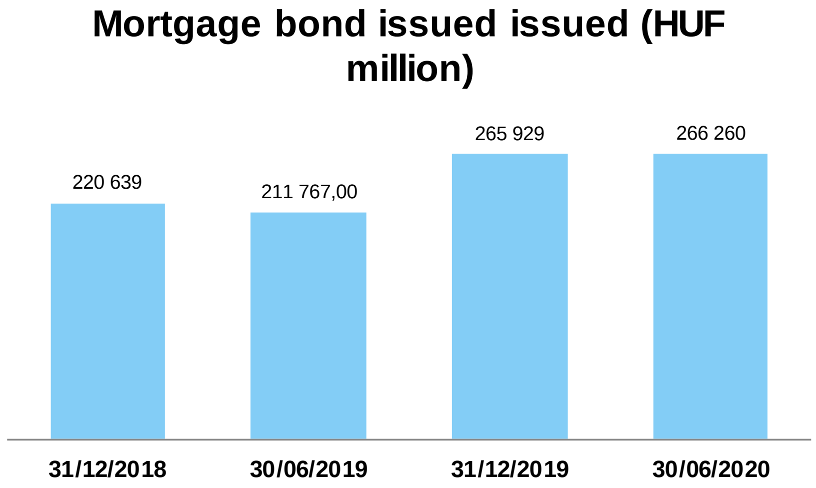
Financial performance III. - major indicators (TMB standalone, IFRS)





Balance sheet total jumped in H1 2020



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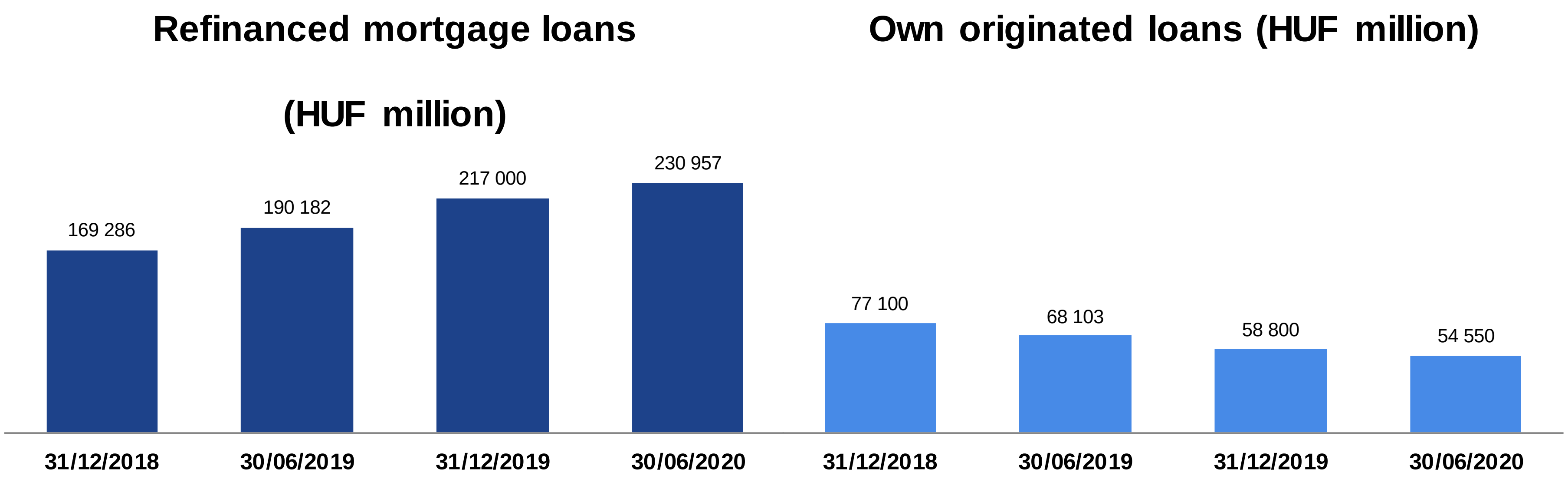
Financial performance IV. - major indicators (TMB standalone, IFRS)



The largest mortgage refinancing bank on the doemstic market with 10 partnerbanks

Refinanced loan volume increases steadily, own originated loans diminish, as own lending has ceased

TAKARÉKJELZÁLOGBANK

Capital position (consolidated,Takarék Group)

HUF million	End-2019	End-2018
Own funds	269 529	244 955
TIER 1 Capital	269 529	244 955
Common Equity TIER 1 Capital	269 529	244 955
ROAE (return on average equity %)	3.3	6.3

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 260 billion at the end of June 2020, while its capital adequacy ratio was 17.48%.

7. APPENDIX

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

Restart of MNB's mortgage covered bonds purchasing program announcement April 28 2020, start May 18 2020

The main aim of MNB's interventions is to stabilize the covered bond market. Practically the same requirements as in 2018: the MNB intends to purchase covered bonds on the primary and secondary markets, especially if it is

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

TMB joined the program: by the end of August 2020 the Bank issued a volume of HUF 63.18 billion, which refers to 31.26% of the total domestic covered bond issuances under the MNB's purchasing program.

Moratoria

The National Bank (MNB) and Hungarian Government announced a moratorium for all mortgage and corporate loans until 31st December on March 9 2020.. This represent a payment holiday for principal, interest and fees under credit facilities, loans and financial leasing. The moratorium applies to all loans existing at midnight 18 March.

Upon expiration of the moratorium, unpaid installments must be paid by customers, and the measure does not relieve them of debt service as a whole. As customers will also pay the arrears with the end of the transitional measures, the moratorium is not expected to have a material negative impact on the profitability and capital position of financial institutions.

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

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

The European Banking Authority (EBA) elaborated a new, unified data-providing system in connection with the corona virus (COVID-19) epidemic, in order to control the additional supervisory reporting needs related to measures managing the COVID-19 crisis. The action plan is published and introduced in the guideline No. EBA/GL/2020/07 on the loans affected by the moratoria, on the quality of the loans, on the structured loans and the state guarantee. The MNB implemented the guideline by a resolution.

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.

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

LAW

- **The cover system**
  - **Mandatory over-collateralization: Mortgage banks shall at all times have sufficient cover assets of a value higher than the sum of the face value of and the interest on outstanding mortgage bonds. Cover assets may include ordinary and supplementary covers. TMB keeps a minimum OC of 2% based on its internal regulation**
  - **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
  - **Supplementary cover asset to be raised to ensure sufficient coverage : In the event of mortgage bank falling short of ordinary collateral mortgage banks are obliged to have supplementary cover including assets defined in Jht. 14.§ (11).**

- **Strict coverage ratios**
  - **Mortgage banks have to ensure the existence of cover assets for their mortgage bonds at all times in terms of both nominal and in present value terms.**
  - **The ratio of supplementary cover can be maximum 20% from the third calendar year of operation.**

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

Regulatory framework

Resolution Law - Act on the Bank Recovery and Resolution (Act. no. XXXVII. of 2014)

LAW

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

- The Part Four (Large exposures) of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms relates to refinancing activity: Article 400 provides exemptions to covered bonds on limit of large exposures. Pursuant to the Act on the Credit Institutions and Financial Enterprises (Act. no. CCCXXXVIII of 2013) the above mentioned exemptions in Hungary will be valid by end of 2028.

- Article 402(3) of the above mentioned Act, on exposures arising from mortgage lending: An institution may treat an exposure to a counterparty that results from a reverse repurchase agreement under which the institution has purchased from the counterparty non- accessory independent mortgage liens on immovable property of third parties as a number of individual exposures to each of those third parties, provided that all of the following conditions are met:i) the counterparty is an institution ii) the exposure is fully secured by liens iii) the institution becomes beneficiary of the claims that the counterparty has against the third parties in the event of default, insolvency or liquidation of the counterparty iv) the institution reports to the competent authorities

- Hungarian mortgage bonds comply with the requirements of Article 52(4) UCITS as well as with Article 129(1) and with Article 129(7) of CRR

- Article 125 of CRR regulates the exposures fully covered by a real estate mortgage. Pursuant to the refinancing agreements of TMB the fulfillment of the requirement of this Law is obligatory for the partners .

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

MFAR increases the role of mortgage banks

- New mortgage banks were established (Erste Bank, K&H Bank – 5 Hungarian mortgage banks).
- Banks have the option to re-finance their household mortgage loan portfolio with existing mortgage banks.
- Further business opportunity for TMB as it could expand its re-financing business in terms of both volumes and number of clients.
- For members of the Integration MFAR has to be fulfilled on consolidated level.

Calculation and reviews of MFAR

- The regulation aims at increasing financial stability by reducing the maturity mismatch arising from the different maturity profile of long-term household mortgage loans and the banking sectors' liability side. 20/2015. (VI. 29.) NBH Decree
- MFAR = HUF liabilities with a remaining maturity of more than 3 year -covered bonds or refinancing loans - (more than 3 year from October 1, 2019) backed by household mortgage loans / net stock of residential HUF mortgage loans with an original maturity longer than 1 year.
- Minimum required level of the ratio: 15% (quarterly reporting), obligation effective from April 1, 2017 and 20% and 25% effective from October 1 2018 and October 1 2019 respectively
- Issued mortgage bonds, mortgage refinancing loans, re-purchase price obligation related to selling independent mortgage lien, asset-backed securities that are (i) denominated in HUF, (ii) not held by the member of the same group; (iii) having a minimum original maturity of 3 year (from October 1, 2019)

Harmonization of covered bond regulations in the EU

The current Hungarian regulation is mainly compliant with the new requirements of the EU regulation approved in November 2019, however there must be some amendments in the Mortgage Act with regard the clarification of those Articles which remains in member state competence, and the fine tuning of the Hungarian regulation. The most important changes may be the following:

Minimum mandatory OC 2-5% (in Hungary only voluntary or contractual OC exists) (129 CRR). The CRR regulation will be amended accordingly. (Member state competence)

Art. 7 Assets located outside of the European Union (Member state competence)

Art. 8 Intragroup pooled covered bond structures (Member state competence)

Art. 9 Joint funding (Member state competence)

Art. 16 Liquidity buffer (Mandatory element)

Art. 17. Soft bullet (Member state competence)

The domestic mortgage banks are consulting with the regulators about the implementation and the amendment of the existing law in the framework of the Hungarian Banking Association. The banks elaborated common suggestions.

TIMELINE:

APPROVAL IN NOVEMBER 27 2019; IMPLEMENTATIONS JULY 8 2021 AND EFFECTUATION JULY 8 2022

CONTACTS

Bozzai Rita

Senior Advisor / Capital markets

E-mail: bozzai.rita@takarek.hu

Telefon: +36 20 429 4002

Tóth Illés

Head of Capital markets

E-mail: toth.illes@takarek.hu

Telefon: +36 30 417 4356

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