



TAKARÉK MORTGAGE BANK CO PLC

GENERAL SHAREHOLDERS' MEETING

BUDAPEST

27 APRIL 2021



**NOTICE
ON CONVENING AN ANNUAL GENERAL MEETING**

Invitation for the shareholders of the Company

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (registered seat: H-1117 Budapest, Magyar Tudósok körútja 9. G. épület; company registration number: 01-10-043638; registered by Company Registry Court of the Budapest-Capital Regional Court; hereinafter: Company) would like to draw the Valued Shareholders' attention to the following:

As a result of the deteriorating epidemiological situation, the Government of Hungary repeatedly introduced a state of emergency in Government Decree 478/2020 (XI.3.) on the declaration of the state of emergency. During the state of emergency introduced as a result of the emergency situation – in accordance with the regulations of Section 3 (1) of Government Decree 502/2020. (XI.16.) concerning the repeated introduction of the special provisions related to the operation of partnerships and capital companies – the decision-making body of a legal person, including a college of delegates or a section meeting, may not be convened in a way requiring the physical presence of members.

According to Section 9(2) of the Government Decree, a public company limited by shares is required to publish on its website the invitation to the General Meeting, as well as any documents under Point *b*) of Paragraph (3) of Section 3:272 of the Civil Code, if on the date of entry into force of this regulation the invitation – or the documents under Point *b*) of Paragraph (3) of Section 3:272 of the Civil Code – have not been published, provided that the invitation must be published no later than 21 days prior to the General Meeting, and the documents under Point *b*) of Paragraph (3) of Section 3:272 of the Civil Code must be published no later than 8 days prior to the General meeting.

The management of the public company limited by shares is entitled to make decisions on all issues included in the published agenda – including the Amendment of the Articles of Association – as well as on the issues specified in Paragraph (1) of Section 5. The management's decision on the issues included in the published agenda may derogate from the proposed resolutions. The resolutions made by the Board of Directors within the scope of competence of the General Assembly must be published as defined by Section 3:279 of the Civil Code.

Pursuant to Section 9(7) of the Government Decree, within a 30-day forfeiture period after the termination of the state of emergency, shareholders holding at least 1% of the votes may request a convention of the General Assembly for the purpose of retroactively approving General Assembly resolutions – included in the agenda – made by the Board of Directors during the time of the state of emergency. A convention of the General Assembly may be initiated by shareholders present in the share register of the public company limited by shares based on ownership compliance requested to be performed and conducted in connection with the General assembly included in the originally published invitation, or in the invitation published in accordance with this regulation. The provisions applicable to the share register entry prior to the General Assembly are to be applied to the ownership compliance conducted under the invitation and the share register entry. The invitation to the convention of the General Assembly shall be published within the expiry of the forfeiture period of 45 days from the receipt of the shareholders' request.

Budapest, 30 March 2021

Takarék Jelzálogbank Nyrt.

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság (registered seat: H-1117 Budapest, Magyar Tudósok körútja 9. G. épület; company registration number: 01-10-043638; registered by Company Registry Court of the Budapest-Capital Regional Court; hereinafter: Company) fulfilling its statutory obligation, the Company notifies the shareholders and investors of the Company that on 30 March 2021, the Board of Directors of the Company made a decision on convening the meeting of the Board of Directors of the Company acting within the scope of competence of the General Assembly.

**The Board of Directors of the Company convenes
its meeting acting within the competence of the General Assembly as set out below:**

Date of the meeting:

27 April 2021 (Tuesday), 10:00 a.m.

Place of the meeting:

the registered seat of the Company
H-1117 Budapest, Magyar Tudósok körútja 9. G épület
(Infopark)

Agenda of the meeting:

1. Report by the Board of Directors regarding the Company's business activities, wealth, business policy and management in 2020, including the separate business report and separate financial statements as defined in the International Financial Reporting Standards (IFRS) for 2020, decision on the use of earnings after tax, the report of the Board of supervisors on the Company's 2020 separate financial statements and separate business report as defined in the IFRS; the report of the Audit Committee on the Company's 2020 separate financial statements and separate business report as defined in the IFRS; the report of the accountant on the Company's 2020 separate financial statements and separate business report as defined in the IFRS;
2. Decision for senior officers concerning the granting of indemnification establishing the compliance of their management activities in the business year of 2020
3. Election and determination of the remuneration of the Company's auditor
4. Approving the Corporate Governance Report
5. Granting authorization of the Board of Directors to acquire own shares

Publication of presentations and draft proposals for the General Meeting

In accordance with the provisions of the Articles of Association relating to the publication of the announcements of the Company and the contents of Government Decree 502/2020 (XI.16.) concerning the repeated introduction of the special provisions related to the operation of partnerships and capital companies during the state of emergency, the Board of Directors of the Company will publish the summary of the presentations relating to the items on the agenda and the draft proposals on the Company's official website (www.takarekjzb.hu), the electronic announcement forum operated by the Central Bank of Hungary (www.kozzetetelek.hu) and the official website of the Budapest Stock Exchange (www.bet.hu) at least 8 (eight) days prior to the General Assembly, in Hungarian and in English.

Takarék Jelzálogbank Nyilvánosan Működő Részvénytársaság

Takarék Jelzálogbank Nyrt.



PROPOSAL

For Agenda Item No. 1.

For the year 2020

Separate financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union

- a. Acceptance of the business report
- b. Approval of the financial statements
- c. Decision on the allocation of the profit after taxation

PROPOSAL FOR RESOLUTION

a) The Board of Directors of the Company, acting under the authority of the General Meeting, approves the Individual Business Report of the Company for 2020 in accordance with the International Financial Reporting Standards (“IFRS”) adopted by the European Union.

b) The Board of Directors of the Company, acting under the authority of the General Meeting, approves the Company's financial statements for 2020 in accordance with the International Financial Reporting Standards (“IFRS”) adopted by the European Union (Separate Statement of Financial Position, Separate Comprehensive Income Statement, Notes).

The Board of Directors of the Company Acting under the authority of the General Meeting, the Company states:

- the balance sheet total in **HUF 612,141 million**
- the profit for the current year in the amount of **HUF 2,373 million.**

c) The Board of Directors of the Company acting under the authority of the Annual General Meeting accepts the proposal for the allocation for the profit after taxation:

- Shares – Series “A” for financial year ended 2020 no dividend is declared
- Shares – Series “B” for financial year ended 2020 no dividend is declared
- Shares – Series “C” for financial year ended 2020 no dividend is declared
- the Company places the profit of the current year of 2020 in the profit reserve and forms the general reserve according to the law, HUF 237 million.



TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2020

Budapest, April 6, 2021

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

Takarék Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Plc., hereafter referred to as “the Bank” or “the Company”) was established on October 21, 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank provided mortgage banking services through its Head Office and regional representative offices located in the Republic of Hungary. The Bank deals with refinancing mortgage loans provided by commercial banks to their customers and issuing mortgage covered bonds to raise funds for its refinancing activity.

The Bank received its operating license as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) on March 6, 1998. The Bank started operation as of March 16, 1998.

On October 31, 2003 the Hungarian Financial Supervision Authority (HFSA) granted permission for the Bank to publish an issuance prospectus and introduce its shares to the Budapest Stock Exchange (BSE). The ordinary shares were listed on the BSE on November 24, 2003.

Ownership structure of Takarék Mortgage Bank Plc.:

Shareholder	December 31, 2020		December 31, 2019	
	Ownership ratio	Nr of shares	Ownership ratio	Nr of shares
	%		%	
„A” shares listed on BSE				
Domestic institutional investors	52.41	56,859,406	52.82	57,285,447
Foreign institutional investors	0.03	32,298	0.02	22,224
Domestic private investors	3.68	3,979,348	3.31	3,594,103
Foreign private investors	0.01	11,760	0.01	12,410
Employees, management	0.00	0	0.00	0
Repurchased shares	0.23	253,601	0.23	253,601
Owner forming part of state household	4.45	4,832,225	4.45	4,832,225
Other investors	0.03	31,372	0.00	0
Series „A” total	60.84	66,000,010	60.84	66,000,010
„B” shares not listed on BSE				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
Series „B” total	13.05	14,163,430	13.05	14,163,430
„C” shares not listed on BSE				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Series „C” total	26.11	2,832,686	26.11	2,832,686
Total	100.0	82,996,126	100.0	82,996,126

The Board of the Bank approved a strategic plan in February 2006, which set the expansion of banking activity and the branch network as medium-term goals. The Bank established new subsidiaries, among them the Takarék Commercial Bank Ltd. (henceforth “the Commercial Bank”), thereby significantly expanding the range of services provided.

In 2013, the Bank managed several acquisitions, thereby broadening the range of activities provided by its subsidiaries and hence the Group. These included the acquisition of Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), the purchase

of the Díjbeszedő Operations and Services Limited Liability Company (DÜSZ), which came into being after a secession from Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Plc. (DBF) getting under the ownership of DÜSZ in the process of the mentioned secession, the purchase of DíjNET Ltd., Díjbeszedő Informatikai Ltd. (DBIT), and a certain share of ownership in the Magyar Posta Befektetési Zrt. (Hungarian Post Investment Ltd.). The Bank sold these ownership shares to the MTB Bank of Hungarian Savings Cooperatives Ltd. (hereafter "MTB") in December 2017.

Based on the Act CXXXV of 2013 on the integration of cooperative financial institutions and the modification of certain legal rules on economic issues (Szhitv), the Bank and the Commercial Bank (under the Bank's majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ) in September 2015, and also the member of the Guarantee Community of Cooperative Credit Institutions, and thus a member of Hungary's then fourth largest banking group (the Takaréék Group).

At the end of December 2015 the Bank increased its share capital by HUF 4,249 million face value, which equaled HUF 30.5 billion issue value. The capital increase took place through private issuance of dematerialized dividend preference shares (Series "B") and registered, dematerialized ordinary shares (Series "C"). The new shares (Series "B" and Series "C") were not listed on the Budapest Stock Exchange, they were purchased by the members of Takaréék Group.

The shareholder structure of the Bank changed significantly in the fourth quarter of 2016. On October 14, 2016 A64 Vagyonkezelő Ltd. sold its shares in the Company over the counter to B3 Takaréék and Fókusz Takaréék, whilst on December 9, 2016 MTB bought the shares of VCP Finanz Holding Ltd. As a result, MTB and the cooperative credit institutions obtained more than 68% of the shares of the Company by the end of the year.

The integration process of the Bank and the Commercial Bank into the Integration of Cooperative Credit Institutions (today known as the Central Organization of Integrated Credit Institutions, i.e. COICI) that started in the autumn of 2015 was finished in 2017. Subsequently, the restructuring of these companies – to fit into the strategy of the broader Integration – started that year.

As a first step, the Bank was reclassified as a simple profile mortgage bank, with only issuance and refinancing functions remaining, while all other human resources and capacities were transferred to the MTB and the Commercial Bank.

On June 27, 2017 the General Assembly of the MTB accepted the 5-year strategy (2017-2021) of the Integration. According to that, the function of the central governing body of Takaréék Group will be solely performed by the MTB; hence the Bank's group management functions were passed over to the MTB. Consequently, the satellite institutions of the Integration including mutual fund management, factoring and leasing services as well as central debt collection became directly subordinated to the MTB.

From April 2018 the Bank stopped new own originated loan disbursements, as it disbursed only allotments on previously agreed credit contracts and non-refundable state subsidies. New credit contracts for households from this time were only available in the Commercial Bank, later – from November 2019 – in the newly established Takaréékbank. Previously made credit contracts were kept in the Bank's portfolio until their expiry, but the active functions of the Bank remained solely those that relate to classic mortgage bank functions (issuance of mortgage covered bonds and refinancing).

The general assembly of the Company on April 27, 2018 made a decision about changing of the name of the Bank. From June 25, 2018 the Bank's official name is Takaréék Mortgage Bank Plc.

In the revised 5-year strategy (2017-2021) of the Takaréék Group (accepted on November 30, 2018 by MTB's general meeting) the Bank's principal role remained unchanged: it solely performs classic mortgage bank activities.

Following the end-2017 sale of most of its subsidiaries, the only subsidiary of the Bank remained its 51% ownership in the Commercial Bank. The Bank divested this last subsidiary on October 29, 2019 selling its full 51% ownership to MTB, and hence for the first time in 2020 the Bank prepares no consolidated annual report. The owners of the Bank – Magyar Bankholding Zrt. (henceforth MBH) as the ultimate parent company as well as MTB – will include the Bank in their scope of consolidation. The consolidated annual reports will cover all companies that are part of the consolidation group on accounting terms.

On May 12, 2020 the S&P Global rating agency published the confirmation of the Bank's BBB rating with respect to the Bank's covered mortgage bond issuance program and the series of covered mortgage bonds issued previously by the Bank either in Forint or foreign currency, changing the outlook from positive to stable. This was explained by the 28th of

April, 2020 change in the outlook of Hungary's long-term sovereign debt rating from positive to stable in the wake of rising risks due to the coronavirus pandemic.

From December 15, 2020 the effective owner rights are exercised by MBH, since by having the Hungarian central bank's (MNB) license, the majority owners of Budapest Bank Zrt. (BB), MKB Bank Nyrt. (MKB) and MTB transferred their shares into the joint holding company. This gave rise to the birth of Hungary's second largest banking group, in which the Hungarian state through Corvinus International Investment Ltd. has a 30.35% share, the direct owners of MKB have a 31.96% share, whereas the direct owners of MTB have a 37.69% share. The management of the MBH has already been appointed and the elaboration process of the new group's 5-year strategy has started.

On December 30, 2020 through official publication channels MTB disclosed its public purchase bid for all shares issued by the Bank, at the same time it submitted its application for the central bank's (hereafter also referred to as MNB) permission. Based on MNB's permission the period for offering the shares started on January 19, 2021, and came to its end on February 17, 2021. MTB accepted all shares that were offered during this period and declared the mandatory public purchasing bid process successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of the MTB in the Bank increased from 86.2% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

The bid was made after the majority owners of BB, MKB and MTB transferred their shares to the MBH on December 15, 2020.

2 THE MACROECONOMIC ENVIRONMENT IN 2020

2.1 THE HUNGARIAN ECONOMY IN 2020¹

Major macroeconomic indicators	2018	2019	2020
Real GDP growth	5.4%	4.6%	-5.0%
Industrial output growth	3.5%	5.6%	-6.2%
Average annual rate of inflation	2.8%	3.3%	3.3%
Average annual rate of unemployment	3.7%	3.4%	4.3%
ESA-based budget balance (relative to GDP)*	-2.1%	-2.0%	-8.8%
Net external financing capacity (relative to GDP)*	2.5%	1.5%	2.8%
Base rate (end-of-year)	0.90%	0.90%	0.60%
EUR-HUF exchange rate (end-of-year)	321.51	330.52	365.13

*Projection for 2020

Sources: KSH, MNB, NGM

The economic developments of year 2020 in Hungary were heavily influenced by the coronavirus pandemic that unfolded from early March. Restrictions, aimed at minimizing human losses and avoiding the collapse of the health care system markedly reduced the level of economic activity. In the first wave of the pandemic it was not only the most directly affected services sectors, but also a good part of the productive sectors that came to a halt due to the sudden break-up of international and domestic supply chains. Following the relatively successful defense against the first wave, with the pandemic receding in early summer and restrictions gradually withdrawn, there was sharp correction in economic activity in the third quarter of 2020, supported by efficient fiscal and monetary policy responses, with which economic policy makers tried to dampen the extent of the economic setback and the loss of jobs as well as lay down the foundations for restarting economic growth. Despite all these efforts, the sharply forming second wave of the pandemic in the autumn together with restrictions reinstated almost pushed the most affected services sectors (tourism, entertainment etc.) to the verge of collapse again. At least, alongside elevated security proceedings the productive sectors proved to be resilient and performed at a level broadly similar to that of the same period of the previous year. GDP finally contracted by 5% last year,

¹ Data used in this chapter are based on the relevant reports and data releases of KSH (Central Statistical Office), MNB (National Bank of Hungary) and analyses prepared by Takarékbank

mostly due to sharply decreasing domestic demand, while the improvement in net export partly offset the extent of the recession.

Low domestic demand may have resulted in easing demand driven price pressures, yet, as asset prices in emerging markets became subject of increased global risk aversion, while pricing uncertainties and base effects were also at play, inflation still started to rise in the middle of the year. At least, core inflation adjusted for indirect tax changes remained well within the central bank's tolerance band throughout 2020. Headline inflation finally amounted to 3.3% on annual average last year. Enterprises that were forced to shut down for an extended period in the wake of the restrictions could retain most of their workforce with the help of state initiated job protection programs, nevertheless the number of registered job seekers exceeded that of the last year by close to 130 thousand in the middle of the year. On annual average, though, the unemployment rate was only 4.3% following the previous year's 3.4%.

Expansionary fiscal policy resulted in a marked budget deficit: on a cash-flow basis the expenditures of the central government surpassed its income by HUF 5,550 billion (the difference was only HUF 1,220 billion in 2019), which, on an accruals basis translates into a deficit of around 9% of GDP. Since the deficit was overfinanced by issuing a way higher amount of foreign currency denominated bonds than originally planned (partly also serving the financing of 2021's budget deficit), public debt soared in 2020, rising to above 80% of GDP from 65.5% prevailing at the end of 2019. Yet, external balance did not deteriorate, what's more, it even improved in 2020 as due to weak domestic demand imports contracted even faster than exports, and hence net external financing capacity (the combined surplus of the current and the capital account) may have increased to 2.8% of GDP from the previous year's 1.5%. However, the steady decrease of net foreign debt came to a halt in 2020.

Credit institutions were impacted by two opposing forces in the wake of the economic crisis that resulted from the pandemic. The freshly introduced credit moratorium and economic policy steps to keep up the dynamics of lending (among them relaxed banking regulations) lent support to the growth of credit, impairment and provisioning for expected future losses, however, led to a steep jump in risk costs. Due to the latter, the annual after-tax profit of the banking sector fell to less than half of 2019's HUF 500 billion. Although the dynamics of new loan disbursement markedly eased even despite the supportive economic policy / monetary policy steps, the stock of both household and corporate credit continued to increase substantially (at double-digit rates), owing to the repayment moratorium through the sharp decrease in amortization payments (close to 60% of household loans and 40% of corporate loans remained under the umbrella of the moratorium). The stock of deposits increased even more spectacularly, explained by both the foregone amortization payments and postponed consumption expenditures in the case of household deposits, while in the case of corporate deposits the abundance of loan programs at favourable conditions as well as state subsidies also contributed to growth alongside the repayment moratorium.

The expansionary monetary policy of the Hungarian central bank (which stretched its balance sheet total by 65% by means of securities purchases, offering long-term fixed rate loans to the banking sector and also enhancing the stock of foreign assets) created a liquidity boom in the financial markets. A major part of this liquidity surplus found its way into the central bank's deposit facilities, another part financed the lending activity and the securities purchases of the banking sector. The central bank reduced the base rate in two steps to 0.6% in the course of the year, nevertheless, reacting partly to the marked depreciation of the Forint, it raised the interest rate on its one-week deposit facility to 0.75% in September (and went on to disburse covered long-term loans to the banking sector also at that rate), and hence short-term interbank rates also adjusted to this rate level. The Forint depreciated markedly, by almost 10% vis-à-vis the Euro during 2020, but by making carry trade more expensive with the mentioned rate hike in September and also using verbal intervention the central bank was more successful in preventing the Forint from further depreciation. As a reflection to the obvious progress in financial stability over the past years, major rating agencies did not downgrade Hungary's sovereign debt even despite the massive economic downturn and rising risk aversion towards emerging economies.

The number of newly built dwellings in 2020 increased by 33.5% compared to 2019, but the number of new building permits and simplified notifications for the construction of new dwellings fell a substantial 35.8% last year. Budapest had a leading role in this (-47.7%), while the modest decrease was observed in villages (-14%). The 33.5% growth in the number of newly built dwellings means that 28,208 flats were reported to have been completed last year as opposed to 21,127 flats in 2019. Again, villages were top performers (45% growth), partly owing to the so-called rural family home creation scheme, which was launched in the second half of 2019. There was also robust growth in cities (42%), but growth in Budapest markedly decelerated (to 8.6%) as in the wake of the pandemic investment driven real estate purchases effectively

vanished. 52.6% of the newly built 28,208 flats was constructed by entrepreneurs, whereas 47.4% by private persons, which is a noticeable decrease in the case of the former (down from 58%), but a marked increase in the case of the latter (up from 42%) compared to 2019.

On October 7, 2020 the Government announced that effective from January 1, 2021 a preferential VAT of 5% will again apply to the purchase and construction of new flats, which will stay in force until December 31, 2022, but it is enough to obtain the building permit by that date, the construction process itself may be finalized by the end of 2026 at latest. The announcement itself was enough to speed up activity in certain segments of the market already in the final months of last year. There were also other announcements in the last quarter of 2020; these are aimed at helping families to solve their housing issues and will thus help the real estate market to come into motion. These are: (i) a flat modernization program coming with 50% state subsidy; (ii) full exemption from VAT in the case of using the family home creation scheme when buying or constructing a new flat; (iii) the possibility of reclaiming VAT up to HUF 5 million in the case of building a new flat in private construction; (iv) the exemption from paying duties when buying real estate in combination with the family home creation scheme and (v) the multi-generation family home creation scheme, which offers subsidies as a function of the number of children in the household in the case of attic installation works or additional floor construction.

2.2 THE BANKING SECTOR IN 2020²

The total assets of the banking sector amounted to around 53,070 billion at the end of 2020, up by 22.9% from HUF 43,181 billion a year before. According to non-audited preliminary figures the combined after-tax profit of the banking sector reached HUF 212 billion last year, markedly, 57.9% below last year's figure, but it mostly came in the wake of substantially higher impairment and provisioning due to the repayment moratorium. The stock of gross credit to clients in the banking sector increased by 16% in 2020 and exceeded HUF 24,400 billion at the end of the year. Within this the stock of household credit increased by 14.8%, while that of the non-financial corporate sector was up by 12.9%. The improvement in the quality of the loan portfolio that characterized the past years came to a halt in 2020, but so far there have been no signs of noticeable deterioration due to the repayment moratorium.

The stock of client deposits increased by 23.2% in 2020, its volume slightly surpassed HUF 30,000 billion. 36.7% of this stock was owned by households (increase was 18%), whereas 41.5% by the non-financial corporate sector, whose deposits increased by no less than 29% in 2020.

2.2.1 Mortgage loans of households

The monthly volume of the disbursement of new household mortgage loans stayed below HUF 80 billion only during the first wave of the coronavirus pandemic, in most months of the year it resided in the range of HUF 80 to 90 billion, on two occasions it was even close to HUF 100 billion. Hence, the new total volume of new disbursements in 2020 reached HUF 1,008 billion, which, in fact, was 2.3% above that of last year's HUF 985 billion. In the home equity loan segment growth in new disbursements amounted to only 1.9%, while in the mortgage-backed general purpose loan segment the annual growth of new disbursements was close to 8%.

2.2.2 Stock of household mortgage loans

The stock of household mortgage loans stood at HUF 4,847 billion at the end of 2020 according to the central bank's data release. This represents HUF 321 billion increase (+7.1%) over end-2019's HUF 4,526 billion stock, but around 50% of this growth can be attributed to the fact that close to 50% of the portfolio participated in the repayment moratorium, hence its stock did not amortize from the middle of March. The stock of home equity loans increased from HUF 3,641 billion at the end of 2019 to HUF 4,004 billion by the end of 2020, which is a growth of exactly 10%. Meanwhile, the stock of mortgage-backed general purpose loans decreased even despite the moratorium and the more dynamic increase in new disbursements: from end-2019's HUF 886 billion it contracted by HUF 43 billion (-4.8%) to reach HUF 843 billion by the

² This section relies on data provided by the MNB with a preliminary nature. We use data relating to the Hungarian operation of banks (branches) only, hence excluding the affiliates of Hungarian banks operating abroad.

end of 2020. The share of foreign currency denominated loans within total mortgage loans was below 0.2% at the end of last year.

2.2.3 The market of mortgage covered bonds

In the course of 2020 the face value of the stock of covered mortgage bonds issued by the five mortgage banks residing in Hungary increased by HUF 368 billion, which implies 29% growth, and thus the end-year stock of mortgage covered bonds outstanding was HUF 1,647 billion at face value. The significant growth in 2020 was mostly due to the newly launched asset purchase program of the central bank in the market segment; the MNB was an active player in both the primary and the secondary segments of the mortgage covered bond market. The gross issuance volume of domestic mortgage banks in 2020 amounted to HUF 566 billion, of which HUF 333.2 billion was realized during the running of the central bank's purchase program between May and the middle of November. In the context of the total outstanding stock the Bank preserved its 20% market share, whereas in the context of issued amount during the MNB's mortgage covered bond purchase program the Bank had a 28% stake, well in excess of its market share.

3 REPORT ON BUSINESS ACTIVITIES

Due to mitigate the adverse economic and financial impacts of the coronavirus pandemic, among other policy steps the MNB launched its government bond and mortgage covered bond purchase program from May 2020. In the case of the latter, this new, second phase was introduced alongside mostly similar conditions to that of the first program in 2018, and it was terminated in November 2020. The central bank's purchases extended to fixed rate long-term mortgage covered bonds denominated in Forint, the allocated budget was 50% of the stock of outstanding Forint denominated mortgage covered bonds issued in Hungary, and MNB was active with its purchases in both the primary and secondary market segment.

The central bank's mortgage covered bond purchase program was fairly decisive in the Bank's business and financial activity in 2020, the development of its P&L items and its balance sheet structure.

3.1 MAJOR FINANCIAL INDICATORS (IFRS, NON-CONSOLIDATED FIGURES)

The total assets of the Bank calculated by non-consolidated figures according to IFRS increased by HUF 269.2 billion (up by 78.5%) in 2020, and by the end of the year its volume reached HUF 612.1 billion. Pre-tax profit, down by 20% from 2019, amounted to HUF 1,945 million, while profit for the year reached HUF 2,373 million. The total comprehensive income for the year was HUF 1,641 million, markedly down from the preceding year's HUF 2,858 million.

HUF million	December 31, 2020	December 31, 2019	Change (%)	Change (HUF million)
Balance sheet total	612,141	342,897	78.5%	269,244
Financial assets valued at amortized costs	573,880	294,526	94.8%	279,354
o/w net loans	336,471	274,813	22.4%	61,659
o/w debt-type securities	229,334	999	-	228,335
Financial liabilities valued at amortized costs	538,318	269,895	99.5%	268,423
o/w debt-type securities issued	322,551	265,929	21.3%	56,621
Equity	66,684	65,043	2.5%	1,641
Profit/Loss before tax	1,945	2,446	-20.5%	(501)
Full-year profit/loss	2,373	2,140	10.9%	233
Total comprehensive income	1,641	2,858	-42.6%	(1,217)
ROAA (average return on assets)	0.5%	0.6%	-	-0.1ppt
ROAE (average return on equity)	3.6%	3.4%	.	0.2ppt

3.2 LENDING

The Bank discontinued extending new loans as of April, 2018, lending activity is provided by Takarékbank, yet, the already existing portfolio remains in the Bank's books until full expiry. From the second quarter of 2018 the Bank is only active in the refinancing business, and thus the stock of its still existing client loans are gradually reduced due to natural amortization and successful workout process.

The stock of the Bank's earlier disbursed loans was HUF 51.3 billion at the end of 2020, down 12.8% from the end-2019's HUF 58.8 billion. 96.4% of this stock is household loan, the volume of which decreased by HUF 9 billion under the last year. The stock of corporate loans amounted to HUF 1.9 billion at the end of 2020. Bulk of the household loan portfolio is mortgage loan, which implies 0.9% market share for the Bank in this segment (down from 1.2% back in 2019).

3.3 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage covered bonds, and uses the funds thus required for refinancing the mortgage debt portfolios of partners within the TakaréK Group and also that of external partners. Within the TakaréK Group the Bank is considered as a special entity: it is able to raise funds in the form of mortgage covered bonds issuances either at domestic or external financial markets. Due to the latter, it is able to secure foreign currency financing if needed.

In its strategy the Bank puts special emphasis on cooperating with external partners. It strives to become an attractive alternative for banking groups that are involved in extending mortgage loans but do not have own mortgage bank license and thus need refinancing.

The stock of refinancing loans extended by the Bank went up by HUF 70.1 billion (or 32.3%) in 2020 and their volume at the end of the year was HUF 287.1 billion.

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's stock of gross credit amounted to HUF 337.3 billion. The value of contingent liabilities on December 31, 2020 was HUF 22 billion. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 359.2 billion. The full gross exposure to credit risk (including securities) amounted to HUF 632.5 billion at the end of 2020.

Net claims on clients amounted to HUF 49.9 billion (this is 14.48% of the portfolio without swaps), moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 0.3 billion (0.077%) at the end of 2020. Of these, 700 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.4 billion in claims with HUF 0.379 billion in impairments.

The stock of refinancing loans was HUF 287.1 billion (83.4% of the portfolio without swaps), with a minimal HUF 2 million in impairments.

In the interbank market the Bank has placements of HUF 0.6 billion in the form of sight deposits.

The Bank has ownership interest in three entities: the MTB, the TakaréK United Cooperatives (TESZ) and the COICI. The nominal value of these investments is HUF 0.01 billion, which is qualified unproblematic.

The share of problem free (Stage 1 and Stage 2) loans was 95.27% as of December 31, 2020, consequently the share of Stage 3 loans was 4.73%.

At average impairment level there was a decrease in the entire (excl. swaps) portfolio (0.25%), but an increase in the loan portfolio (1.72%) compared to end-2019.

3.5 SECURITIES ISSUES

In eleven public auctions last year the Bank raised HUF 109.5 billion in new funds by issuing mortgage covered bonds. Unsecured bonds were not issued in 2020. Similarly to 2018, the volume as well as the interest rate composition of issuances in 2020 was primarily determined by the conditions of MNB's second mortgage covered bond purchase program. Following the temporary freeze of the mortgage covered bond market in the wake of the outbreak of the global coronavirus pandemic, the Bank (which had successful issuances in January and February) could continue its regular monthly issuance activity from May up until the middle of November, when the MNB stopped purchasing mortgage covered bonds in the primary segment. By quarters, there were issuances with HUF 15.2 billion, HUF 19.2 billion, HUF 54.9 billion and HUF 20.2 billion face value by the Bank. Since the conditions of the MNB's second mortgage covered bond purchase program were roughly similar to that of the first program in 2018, the share of fixed rate bonds within total annual issuances increased to 87%, leaving less than 13% share for floating rate bonds.

Concerning Forint denominated mortgage covered bonds the Bank also performed five repurchase transactions in 2020 (two stock exchange auctions and three secondary market transactions) affecting five series of mortgage covered bonds. The Bank repurchased and withdrawn from the circulation HUF 23.83 billion of covered mortgage bonds altogether, all of which were floating rate bonds. Besides, the Bank also repurchased fixed rate Euro denominated mortgage covered bonds with the volume of EUR 1.1 million. Seven series of mortgage covered bonds expired in 2020, the largest of these, the FJ20NF01, amounted to HUF 25.6 billion in itself.

Due to the above transactions the total face value of mortgage covered bonds issued by the Bank and still in circulation was HUF 319.5 billion at the end of 2020.

In accordance with the provisions of the Act on Mortgage Loan Companies and Mortgage Bonds and in keeping with its rules on collateral registration, the Bank monitored the loan coverage situation and compliance with proportionality requirements. In order to ensure appropriate mortgage covered bond coverage the Bank verified, upon disbursement of the loan, whether the conditions for ordinary collateral were met.

The net value of real estate collateral covering mortgage covered bonds issued by the Bank was HUF 383.2 billion as of December 31, 2020, 23.9% above the figure prevailing at December 31, 2019 (HUF 309.3 billion).

Value of mortgage covered bonds and assets involved as collateral

HUF million	December 31, 2020	December 31, 2019	Change
Outstanding covered mortgage bonds in circulation			
Face value	319,540	266,746	19.8%
Interest	46,389	30,956	49.8%
Total	365,929	297,702	22.9%
Value of ordinary collateral			
Principal	311,882	252,187	23.7%
Interest	71,314	57,136	24.8%
Total	383,196	309,323	23.9%
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	33,096	45,552	-27.3%
Mortgage bonds	4,662	-	-
Total	37,758	45,552	-17.1%

As of 31 December 2020, the present value of ordinary collateral was HUF 366.4 billion and the present value of mortgage covered bonds was HUF 345.5 billion, thus the present value of collateral amounted to 106.06% of CMBs (Collateralised Mortgage Bond) in circulation not yet repaid. The net value of ordinary and supplementary collateral principal to the unpaid face value of mortgage covered bonds in circulation was 108.27%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage covered bonds in circulation was 161.62% as of December 31, 2020.

3.6 BALANCE SHEET DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

The Bank's business and financial activity in 2020, the development of its P&L items and its balance sheet structure was heavily influenced by the central bank's measures that were aimed at mitigating the negative economic and financial impacts of money market turbulences caused by the coronavirus pandemic.

The renewed mortgage covered bond purchase program of the central bank was roughly similar in its strategic parameters to the first one in 2018, and it lasted up until November, 2020. The total volume purchased in the program was HUF 273.8 billion, of which the Bank's share was HUF 102.3 billion.

On March 16, 2020 the MNB reorganized the set of its monetary policy tools, and similarly to the ECB, it announced the introduction of providing long-term collateralized lending facility (LTRO) on various maturities (3-, 6- 12-month as well as 3- and 5-year) at fixed rates without any restrictions on quantity. As a result, the banking system was supplied with HUF 2,263 billion long-term liquidity through the 3- and 5-year refinancing vehicle. The Bank, taking on an active role in these tenders, was successful in building HUF 213 billion favourably priced 3- and 5-year loans into its long-term liabilities. In

parallel, the stock of its purchased securities also went up, since part of the funds acquired in the LTRO was devoted to this goal.

As of 31 December 2020, the Bank's balance sheet total according to non-consolidated IFRS figures amounted to HUF 612.1 billion, significantly above the end-2019 figure of HUF 342.9 billion.

Balance sheet items (HUF million)	December 31, 2020	December 31, 2019	Change (%)	Change (HUF million)
Assets				
Cash, claims on central bank and other sight deposits	1,499	1,070	40.1%	429
Financial assets held with trading purposes	103	175	-41.1%	(72)
Financial assets at fair value through other comprehensive income	34,889	43,734	-20.2%	(8,845)
Financial assets at amortized costs	573,880	294,526	94.8%	279,354
Financial derivatives - assets	926	2,676	-65.4%	(1,750)
Tangible assets	125	157	-20.4%	(32)
Goodwill and other intangible assets	208	241	-13.7%	(33)
Deferred tax assets	348	0	-	348
Other assets	163	318	-48.7%	(155)
Total assets	612,141	342,897	78.5%	269,244
Liabilities				
Financial liabilities held with trading purposes	88	136	-35.3%	(48)
Financial liabilities at fair value through profit and loss	6,484	6,552	-1.0%	(68)
Financial assets at amortized costs	538,318	269,895	99.5%	268,423
Financial derivatives - liabilities	284	288	-1.4%	(4)
Provisions	116	509	-77.2%	(393)
Deferred tax liability	4	93	-95.7%	(89)
Other liabilities	163	381	-57.2%	(218)
Total liabilities	545,457	277,854	96.3%	267,603
Shareholders' equity				
Share capital	10,849	10,849	0.0%	0
Paid-in capital on top of face value	27,926	27,926	0.0%	0
Accumulated other comprehensive income	260	992	-73.8%	(732)
Accumulated profit reserve	24,319	22,416	8.5%	1,903
Other reserves	1,164	927	25.6%	237
(-) Own shares	(207)	(207)	0.0%	0
Full-year profit/loss	2,373	2,140	10.9%	233
Total shareholders' equity	66,684	65,043	2.5%	1,641
Total liabilities and shareholders' equity	612,141	342,897	78.5%	269,244

3.6.1 Financial assets at fair value through other comprehensive income

The value of financial assets at fair value through other comprehensive income was HUF 34.9 billion at the end of 2020, 20.2% lower than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

The change in the stock of debt-type securities is mostly explained by the decline of bonds issued by credit institutions; the stock declined by 76.5% compared to the end of 2019. The stock of government bonds, however, increased by 3.1% over the same period.

3.6.2 Financial assets valued at amortized costs

The volume of financial assets valued at amortized costs almost doubled in 2020, thus the volume amounted to HUF 573.9 billion by the end of the period.

Within this the stock of gross loans increased by 22.3%, rising to HUF 337.3 billion by the end of the year. The stock of interbank deposits and claims on central bank decreased from HUF 17.4 to HUF 7.2 billion, which is close to 60% decline in one year.

3.6.3 Financial liabilities valued at amortized costs

Financial liabilities valued at amortized costs take up 87.9% of the Bank's total liabilities. Their volume at the end of 2020 was almost twice as high as a year before, thus reaching HUF 538.3 billion. Within these liabilities it is debt-type securities, i.e. the mortgage covered bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share. The nominal value of mortgage covered bonds in circulation was HUF 322.6 billion at the end of 2020, up 21.3% from 2019. In the course of 2020 the stock of debt also increased significantly, reflecting the growth in long-term fixed loans from the MNB (due to LTRO).

3.6.4 Equity, capital adequacy

The shareholders' equity was HUF 66.7 billion at the end of 2020, up HUF 1.6 billion from the end of 2019. The prudential requirement on capital adequacy should be interpreted in TakaréK Group's context. The Group level capital adequacy requirement was met at the end of 2020.

3.6.5 Off balance sheet items

The value of off balance sheet contingent liabilities was HUF 22.1 billion at the end of 2020, 21.5% higher than a year before. It entirely consisted of the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners, which back at the end of 2019 stood at only HUF 18.1 billion.

3.7 PROFIT & LOSS DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

P&L items (HUF million)	2020	2019	Change (%)	Change (HUF million)
Interest income	11,449	10,261	11.6%	1,188
Interest expense	(8,237)	(7,698)	7.0%	(539)
Net interest income	3,212	2,563	25.3%	649
Fee and commission income	688	591	16.4%	97
Fee and commission expense	(521)	(436)	19.5%	(85)
Net fee and commission income	167	155	7.7%	12
Dividend income	0	0	-	-
Forex transactions	100	(10)	-1100.0%	110
Profit/Loss on derecognition of financial assets and liabilities not valued at fair value through profit and loss	492	423	16.3%	69
Profit on financial assets and liabilities held for trading purposes	672	2,319	-71.0%	(1,647)
Profit/Loss on non-traded financial assets at fair value mandatorily through profit and loss	0	0	-	-
Profit/Loss arising from hedging operations	(878)	(913)	-3.8%	35
Profit/Loss on financial assets and liabilities at fair value through profit and loss	290	147	97.3%	143
Net trading result	676	1,966	-65.6%	(1,290)
Profit/Loss on the derecognition of non-financial assets	157	41	282.9%	116
Net other operating revenue	530	787	-32.7%	(257)
Net other operating expense	(16)	(8)	100.0%	(8)
Operating income	4,726	5,504	-14.1%	(778)
Provisioning and deprovisioning	(3)	14	-121.4%	(17)
Net depreciation of financial assets and liabilities not valued at fair value through profit and loss	(167)	380	-143.9%	(547)
Net depreciation of non-financial assets	(8)	(121)	-93.4%	113
Operating costs	(2,366)	(3,337)	-29.1%	971
Profit/Loss on reclassification	(237)	6	-4050.0%	(243)
Profit/Loss before tax	1,945	2,446	-20.5%	-501
Income tax	428	(306)	-239.9%	734
Profit/Loss on discontinued activities	0	0	-	0
Profit/Loss for the period	2,373	2,140	10.9%	233
Comprehensive income				
Profit/Loss for the year	2,373	2,140	10.9%	233
Other comprehensive income	(732)	718	-201.9%	(1,450)
Items not reclassifiable as income	9	9	0.0%	0
Changes in the fair value of ownership-type instruments at fair value through other comprehensive income	0	0	-	0
Income tax on not reclassifiable items	9	9	0.0%	0
Items reclassifiable as income	(741)	709	-204.5%	(1,450)
Cash-flow hedging transactions	0	0	-	0
Hedging instruments	3	(186)	-101.6%	189
Debt-type instruments at fair value through other comprehensive income	(744)	895	-183.1%	(1,639)
Investments assets held for sales purposes	0	0	-	0
Corporate tax on items reclassifiable as income	0	0	-	0
Total comprehensive income	1,641	2,858	-42.6%	(1,217)

The Bank's pre-tax profit was HUF 1.9 billion in 2020, short of 2019's HUF 2.4 billion (-20.5%). Full-year profit was HUF 2.4 billion in 2020 (up from 2019's HUF 2.1 billion). Total comprehensive income also remained below that of 2019: it amounted to HUF 1.6 billion as opposed to HUF 2.9 billion a year earlier.

3.7.1 Net interest income

Net interest income was HUF 3.2 billion in 2020 as a result of HUF 11.4 billion in income (up 11.6% from 2019) and HUF 8.2 billion in expenses (up 7% from 2019). In sum, net interest income was HUF 649 million (25.3%) higher in 2020 than in the preceding year.

With respect to interest income the HUF 2.1 billion increase in the volume of financial assets valued at amortized costs was the most decisive factor.

Interest expenses were 7% higher in 2020 than in 2019. Within this interest expenditures on financial liabilities valued at amortized costs has the decisive role: this amounted to HUF 7.4 billion in 2020, HUF 714 million above that of the preceding year's.

3.7.2 Net fees and commissions

In 2020 the Bank achieved a positive balance of HUF 167 million on commissions and fees as opposed to HUF 155 million back in 2019, implying 7.7% growth. Income from fees and commissions reached HUF 688 million (up 16.4% from 2019), due to favourable changes in the fee and commission income from refinanced mortgaged loans as well as better income stream from valuation. Expenses amounted to HUF 521 million in 2020 (up from 2019's HUF 436 million). This growth reflects higher costs on valuation and Treasury activity.

3.7.3 Net trading result

The balance of net trading results fell markedly short of the previous year's one. Compared to 2019's HUF 2 billion net trading result, this year's figure was HUF 1.3 billion lower, thus exhibiting a mere HUF 0.7 billion profit. This is mostly explained by a marked decline in the profit from IRS (interest rate swap) transactions within the profit from financial assets and liabilities managed with trading purposes.

3.7.4 Net operating income

The decrease in net trading result is also reflected in the net operating income of the Bank. The HUF 4.7 billion profit in 2020 is 14.1% lower than the preceding year's HUF 5.5 billion.

3.7.5 Operating expenses

Due to reduced activity in the wake of performing classic mortgage bank functions only, operating expenses decreased further in 2020. The HUF 2.4 billion overall cost level was down 29.1% from 2019. The largest reduction took place in general and administrative costs (HUF 680 million lower), maintenance costs (down by HUF 486 million), marketing and advertising costs (down by HUF 126 million) and personnel costs (HUF 108 million less).

Operating costs (HUF million)	2020	2019	Change (%)	Change (HUF million)
Personnel costs	207	315	-34.1%	(108)
Advertisements	1	127	-99.2%	(126)
General and administrative costs	93	773	-88.0%	(680)
Leasing fees	19	21	-9.5%	(2)
Depreciation of tangible assets	33	120	-72.5%	(87)
Depreciation of intangible assets	25	36	-30.6%	(11)
Consultancy fees	185	242	-23.6%	(57)
Maintenance costs	350	836	-58.1%	(486)
Sector-specific tax on credit institutions	98	76	28.9%	22
Other taxes and fees	177	192	-7.8%	(15)
Insurance costs	5	8	-37.5%	(3)
IT costs	60	29	106.9%	31
MNB fee	38	43	-11.6%	(5)
Fees for supervisory and other prudential activities	531	394	34.8%	137
SLA expenditures	505	0	-	505
Other non-specified costs	39	125	-68.8%	(86)
Total costs	2,366	3,337	-29.1%	(971)

3.7.6 Impairment and provisioning

The net balance of impairment and provisioning was HUF 178 million in 2020.

3.7.7 Profit/Loss due to reclassification

The cost of the repayment moratorium that came into effect on March 18, 2020 is derived from the loss impact on the net present value of not served and thus accrued credit cash-flows. The total impact for the Bank was HUF 237 million last year.

3.7.8 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 1.9 billion in 2020.

4 LIQUIDITY MANAGEMENT

In accordance with the special legal status of the Bank, the institution is not allowed to collect client deposits, thus among its liabilities the components with the highest weight – under usual operation – are mortgage covered bonds and interbank liabilities. In the course of 2020 in the liability structure of the Bank there emerged an item and became more and more decisive: long-term (3- and 5-year) central bank sources by taking advantage of the central bank's long-term collateralized lending facility.

As a member of TakaréK Group the Bank covers its liquidity positions predominantly against other entities within TakaréK Group. The Bank is entitled to cover its amount of refinanced and remaining own-originated loans by issuing mortgage covered bonds only to the extent of capital, which can be taken into account in the cover pool. Correspondingly, the financing of the uneligible capital of the stock of mortgage debt and the liquid assets needed for meeting the excess coverage and the 180-day liquidity buffer, formed by internal regulation to secure the future principal and interest payments on mortgage covered bonds, should mostly be financed from unsecured liabilities. Also due to internal regulations the Bank maintains 2% excess coverage.

Effective from March 28, 2019 mortgage covered bonds issued by the Bank are rated by S&P Global (currently at BBB with stable outlook). On February 28, 2020 S&P improved the outlook on the credit rating of the Bank's covered mortgage

bonds to positive, since it has also done so in the case of Hungary's long-term sovereign debt. However, due to mounting risks toward emerging markets following the outbreak of the coronavirus pandemic, the outlook on Hungary's sovereign debt rating was cut back to stable on May 12, 2020, and a similar step followed in relation to the Bank's mortgage covered bond rating.

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities (following the adoption of the purely mortgage bank strategy) are mostly influenced by the developments in the stock of refinanced loans, and the level of activity in primary mortgage covered bond issuances with a view to secure the MFAR compliance of TakaréK Group.

From the aspect of the liability structure 2020 was a special year, as the central bank's policy responses to the economic and financial impacts of the coronavirus pandemic, i.e. the overhaul of the monetary policy tool set markedly influenced the composition of the Bank's liabilities. Following the start of the central bank's mortgage covered bond purchase program, partner institutions could also increase the stock of credit offered for refinancing, and the thus expanding coverage pool made it possible for the bank to actively participate in the MNB's program.

The amount of mortgage covered bonds increased by close to 19.8% (HUF 52.8 billion) rising from a face value of HUF 266.7 billion at the end of 2019 to HUF 319.5 billion by the end of 2020. In the last year the Bank raised HUF 109.5 billion in new funds exclusively in the form of mortgage covered bond issuances through stock market auctions with the involvement of the entire circle of dealers. In the same period HUF 23.8 billion floating rate covered mortgage bonds were repurchased, and a Euro denominated series was also repurchased in a volume of EUR 1.1 million. The total face value of expiring series (seven altogether) was HUF 33 billion in 2020.

No unsecured bond issuances took place in 2020.

The stock of covered loans taken from the central bank reached HUF 212.7 billion by the end of the year, while the weight of other interbank liabilities within total liabilities was insignificant.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

The Bank is a member of the Central Organization of Integrated Credit Institutions (COICI). Due to this membership the rules and principles of risk management policies in the Integration, as well as the risk strategy also apply to the Bank.

The risk strategy, which was approved by the Board of Directors of MTB (as the business management body of the Integration) and is mandatory for all credit institutions and other companies within the TakaréK Group under the consolidated supervision cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and willingness for risk taking, risk structure, risk management, the structure and organization of risk management.

The Integration and its member institutions pursue to create an integrated risk culture, which covers the entire Integration, and which is in line with their risk appetite and risk tolerance to ensure the identification, measurement and management of emerged risks. The primary tools for creating this risk culture are internal policies, strategies, regulations and guidelines, internal communication and the continuous training of employees.

The Bank must comply with the requirements of COICI and MTB (as the business management body of the Integration).

The primary goals of risk management in the Bank are to protect its financial strength and reputation, and contribution to the use of capital for competitive business activities, which results in the increase of shareholder value. The protection of financial strength and reputation means that risk management should limit the impact of unfavourable events both on the capital and the profit of the Bank.

The Bank's willingness to take risks must be in line with the financial resources available to cover possible losses. To achieve this the Bank calculates current and future capital requirements for quantifiable risk types, just like the capital requirements under the first Pillar.

The Bank considers prudent risk taking as a vital value.

The Bank is primarily exposed to credit, liquidity, market and operational risks.

5.2 CREDIT RISK

The main activity of the Bank remains the refinancing of the mortgage portfolio of its partner banks. The Mortgage Financing Adequacy Ratio (MFAR) introduced by MNB created a business opportunity for mortgage credit institutions by supporting them to extend refinancing loans with similar maturity profile as that of the long-term residential mortgage loans of partner banks, helping them in eliminating their Forint maturity mismatches. This provided an exceptional opportunity for the Bank to acquire new business partners and to expand its refinancing activities.

In the case of both the household and the corporate portfolio the main changes impacting risk management were motivated by changes in methodologies applied in the wake of the pandemic. In its calculations of credit risk the Bank introduced a so-called macro correction, which was based on an upgraded macroeconomic model. Lending activity also had to be reconsidered from the side of risk management: risk parameters had to be defined, limits on the size of risk taking vis-à-vis partner banks had to be established.

The corporate credit portfolio of the Bank fully consists of project loans with commercial real estate as collateral. With respect to this clientele the sector-specific limit system applied to corporate lending was instrumental in establishing risk taking directions in year 2020.

5.3 LIQUIDITY AND MATURITY RISK

Maintaining liquidity is an essential element of banking activity. The Bank maintains its liquidity by adjusting the maturity profile of its assets and liabilities. In the framework of asset and liability management (ALM) the Bank mitigates maturity risk through both the repurchase of the securities issued earlier and new issuances. At the same time, it applies maturity transformation controlled by pre-defined limits in order to improve profitability, while maintaining solvency at all times. In the case of maturing contracts the Bank regularly reviews prepayments and early payment requests initiated by clients and takes into consideration their impact on managing market and liquidity risks.

The Bank prepares its liquidity plans and financing positions based on expectations derived from different scenarios, and also pays attention to the possible effects of stress situations. The level of liquid assets is kept continuously high.

Due to its specialized credit institution status and its strategy (applied since 2018) of a purely classic mortgage bank, the company's balance sheet structure is much simpler than that of a classic commercial bank. On the asset side it is the increasing stock of refinancing loans (the stock of own loans gradually narrows, new disbursements did not take place since 2018) and liquid securities, while on the liabilities side it is issued mortgage covered bonds and the long-term central (only 3 and 5 years long) bank financing sources (LTRO) qualify as decisive items. Since in the framework of LTRO the central bank (introduced on 24 March 2020) extends covered credit to market players, for the Company it is the mismatches in the maturity structure of mortgage covered bonds and the stock of refinanced loans (and the still outstanding own credit), where the liquidity risk to be addressed comes from.

The Bank prepares its liquidity plans in cooperation with TakaréK Group's Liquidity Management Centre and the Market Risk Departments. This is based on expectations derived from different scenarios taking into the possible effects of stress situations. Since the excess coverage within the Bank's collateral asset pool is provided by liquid assets, and taking into account that under internal regulations the Bank keeps up a liquidity buffer enough to cover cumulated outflows on a 180-day horizon, the Bank's need for liquid assets is continuously around HUF 25 to 40 billion.

5.4 EXCHANGE RATE RISK

The Bank is a specialized credit institution, which significantly narrows the scope of business activities, where exchange rate related risks may arise. Moreover, it is the Bank's explicit policy to keep exchange rate risk at a low level.

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions are supportive to do so. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or accrued expenses and deferred charges in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

Interest rate risk stems from interest rate changes, which impact the value of the underlying financial instruments. The Bank is also exposed to interest rate risk, when the amounts of assets, liabilities and off-balance sheet instruments maturing or being revaluated in a particular period are not in accordance with each other.

The Bank is monitoring interest rate risk on a continuous basis by Gap analysis, VaR calculations and sensitivity analysis and mitigates exposures by setting limits. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as the repurchase of mortgage covered bonds, swap deals as well as adjusting mortgage covered bond maturities and interest rates to correspond to the underlying assets are made use of in order to ensure the harmony between assets and liabilities.

5.6 OPERATIONAL RISK

Operational risks are handled through the continuous improvement of internal regulations and procedures, the adequate training of employees and the enhancement of built-in control mechanisms. The senior management of the Bank regards feedbacks as an indispensable tool in managing operational risks. It is considered a very important aspect to monitor the effectiveness of measures taken in order to eliminate operational risks. The Bank collects and analyses loss data due to operational risk based on a system of Key Risk Indicators (KRI), and there is a regular monthly report about developments in this subject. In order to identify operational risks in time the Bank supports its employees by providing internal training.

The KRIs are reviewed each year, thus also in 2020 various KRIs were modified and new KRIs were defined as well. In order to improve the quality of these indicators, the operational risk division of the Bank holds expert meetings with those units that are responsible for the collection and processing of data, and they jointly decide on indicators and their critical levels/limits.

In the case of key activities the Bank made a self-valuation of operational risks and defined those rarely occurring events that potentially cause heavy losses. The impacts of such events are estimated by scenario analyses.

The Bank compiled an inventory for the used risk models in accordance with the surveillance requirements and a list of products to identify product-specific risks.

6 ORGANIZATION CHANGES AND HEADCOUNT

The Bank functions as a classic mortgage bank: it handed over its business and mortgage loan extending and managing functions to the Takarékbank, while its former group control, supervision and support functions with the underlying infrastructure was passed on to MTB.

The Bank's full-time equivalent number of employees at the end of 2020 was 15.3 (at the end of 2019 it was 14).

7 PROTECTION OF ENVIROMENT

Although the Bank does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environment-friendly workplace, maintains and cares for the natural vegetation and ornamental plants in its direct environment. It pursues to apply energy-saving solutions during its operation. In its internal trainings it emphasizes the importance of energy and environmentally conscious corporate and employee behaviour. In the fourth quarter of 2020 the Bank set up its Green Mortgage Bond Committee, the primary goal of which is defining and operationalizing norms/criteria for green mortgage covered bonds and creating the conditions for the future issuance of green mortgage covered bonds.

8 OTHER SERVICES PROVIDED BY THE AUDITING COMPANY

The auditing company did not invoice fee for non-specified other services for the Bank in 2020.

9 POST BALANCE SHEET DATE EVENTS

MTB, as the qualified majority owner of the Bank on December 30, 2020 made a mandatory public purchasing bid for all the shares issued by the Bank. The window to accept the bid was open until February 17, 2021. During this period the shareholders of the Bank offered their shares for purchase as follows:

- 2,103,165 (two million one hundred and three thousand one hundred and sixty five) pieces of ordinary „A” shares, each with a face value of HUF 100 (one hundred Forints);
- 0 (nil) pieces of preferential „B” shares, each with a face value of HUF 100 (one hundred Forints)
- 0 (nil) pieces of ordinary „C” shares, each with a face value of HUF 1000 (one thousand forints).

MTB accepted the shares offered for purchase and declared the mandatory public purchase bid successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of the MTB in the Bank increased from 86.2% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

Impact on the Bank of MNB’s executive circular issued on January 21, 2021 on the application of IFRS9 standards

The main aim of the circular by MNB was to recommend uniform treatment of clients participating in the repayment moratorium among banks.

In the case of those clients that already participate in the moratorium for a period longer than nine months, MNB expects banks to examine whether the financial standing and the repayment ability of these clients can still be considered stable despite the ongoing participation in the moratorium. Should available data be not supportive of this, MNB expects banks to put the underlying transactions into restructured status and classify them as Stage2 category. Along the lines of the circular the Bank introduced the following measures:

- it identified the customer base that participated in the moratorium for a period longer than nine months;
- it modified the rules of monitoring the credit portfolio (introduced in 2020 for the period of the moratorium) in order to be able to point out transactions that should be put into restructured status;
- it specified which clients and transactions should also be reclassified as Stage2 category;
- it set March 31, 2021 as the deadline for these reclassifications;
- it committed itself to repeat the monitoring of the portfolio and the necessary reclassifications each month until the moratorium is in effect;
- it monitors the recovery process of clients and transactions on a monthly basis in line with the MNB’s expectations.

With respect to TakaréK Group as a whole, the customer base, which participated in the moratorium for at least nine months accounts for 40% of the entire household and corporate exposure. Upon processing the data on clients' financial situation, the extent of exposures to be put into restructured status stabilized at 6 per cent, whereas the share of exposures to be reclassified as Stage2 on March 31, 2021 due to the application of the central bank's executive circular stands at 2.7%. In the first quarter of 2021 the Bank also harmonized its methodology for monitoring the portfolio subject to the repayment moratorium to adhere to the principles for the selection of restructured and latent Stage2 transactions as recommended by the MNB.

For 2020 the Bank made no significant changes to the volume of already recognized impairment loss as a result of the MNB's circular.

Budapest, April 6, 2021



dr. Gyula László Nagy
Chief Executive Officer



Attila Mészáros
Deputy CEO



Takarék Mortgage Bank Plc.

*Separate Financial Statements
and
Independent Auditor's Report*

December 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Takaréék Mortgage Bank Plc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Takaréék Mortgage Bank Plc. (the „Bank”) for the year 2020 which comprise the separate statement of financial position as at December 31, 2020 – which shows a total assets of MHUF 612,141 –, and the related separate statement of profit or loss, separate statement of other comprehensive income – which shows a net profit for the year of MHUF 2,373 –, separate statement of changes in equity and separate statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS”), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the “Rules of conduct (ethical rules) of the auditor profession and the disciplinary process” of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the matter
<i>Calculation of expected credit losses on loans assessed on portfolio-level</i>	
<p>(See Sections 17 of Notes to the Separate Financial Statements for the details)</p> <p>As at December 31, 2020 the Bank shows net value of loans to customers at amortised cost in an amount of MHUF 49,076 (gross amount MHUF 49,940) in connection with MHUF 864 provision has been recognized.</p> <p>The calculation of expected credit losses of loans assessed on portfolio-level requires application of professional judgement and use of highly subjective assumptions by management.</p> <p>The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none">- IFRS9 credit risk staging methodology and application- probability of default- loss given default- estimation of future cash-flows expected to be realized. <p>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL.</p> <p>Based on the significance of the above described circumstances the calculation of expected credit loss of loans assessed on portfolio-level was identified as a key audit matter.</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none">- testing design and operative effectiveness of key controls relating to monitoring of loans and calculating and recording of impairment;- test of staging through portfolio level analysis and the staging methodology applied by the model,- robust challenge of management estimates related to the provisioning;- assess the collective model methodology and testing the calculations in terms of risk parameters (probability of default - PD, loss given default - LGD, expected credit loss - ECL, macroeconomic factors) applied by the collective models by involving of experts, recalculation of impairment,- comprehensive analysis of loan portfolio;- assessing the requirement for additional allowances considering the Bank's ECL model, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses; and- assessing the adequacy of the disclosures in the financial statements.

Other Information

Other information comprises the information included in the Responsible Corporate Governance Report and the business report of the Bank for 2020, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion

on the financial statements provided in the section of our independent auditor's report entitled "*Opinion*" does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Bank for 2020 corresponds to the financial statements of the Bank for 2020 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 24, 2020 and our uninterrupted engagement has lasted for 9 years.

Consistence with the Additional Report to the Audit Committee

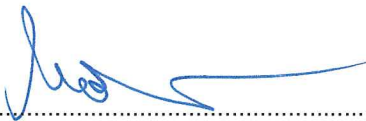
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on April 6, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, April 6, 2021



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Gábor Molnár
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 007239

**Takarék Mortgage Bank Public Limited Company
Separate Financial Statements in accordance with the International
Financial Reporting Standards adopted by the European Union**

For the year ended 31 December 2020

**Separate Financial Statements in Accordance with the International Financial Reporting
Standards adopted by the European Union – 31 December 2020**

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All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

GENERAL INFORMATION**Chairman of the Board of Directors**

József Vida

Chairman of the Supervisory Board

Dr. Zsolt Harmath

Members of the Board of Directors

Dr. Gyula Nagy

Attila Mészáros

Éva Hegedűs

Gábor Gergő Soltész

Pál Sass

Responsible person for the control and management of accounting services:

Ildikó Brigitta Tóthné Fodor

Auditor company

Deloitte Auditing and Consulting Ltd.

Statutory registered auditor

Gábor Molnár

In the second half of 2019 the shares of Takarék Commercial Bank Ltd – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd (hereinafter: MTB Ltd.) by Takarék Mortgage Bank (hereinafter: the Bank), therefore the consolidated financial statements were not prepared by the Bank in 2020.

As the parents company of the Bank, - Magyar Bankholding Ltd. (the main parent) and MTB Ltd. - are prepared the Bank's consolidated financial statements regard to the companies included in the scope of consolidation.

The annual report does not contain the Business Report that is prepared by the Bank every year and provided for to be available for inspection on the Bank's website and at the registered office.

Seat of the Bank, central office

Budapest

Magyar Tudósok körútja 9. G. ép.

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All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Profit or Loss for the year ended 31 December 2020

	Notes	2020	2019
Interest income	4	11,449	10,261
Interest expense	4	(8,237)	(7,698)
Net interest income		3,212	2,563
Fee and commission income	5	688	591
Fee and commission expense	5	(521)	(436)
Net fee and commission income		167	155
Dividend income		-	-
Profit/(Loss) from foreign exchange transactions	6	100	(10)
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	492	423
Gains on financial assets and liabilities held for trading	8	672	2,319
(Losses) from hedge accounting		(878)	(913)
Gains on financial assets and liabilities designated at fair value through profit or loss		290	147
Net trading result		676	1,966
Gains on derecognition of non-financial assets, net	9	157	41
Other operating income	9	530	787
Other operating expense	9	(16)	(8)
Operating income, net		4,726	5,504
Provisions	25, 30	(3)	14
Impairment on financial assets not measured at fair value through profit or loss	30	(167)	380
Reversal of impairment on non-financial assets	19,20	(8)	(121)
General and administrative expenses	10	(2,366)	(3,337)
Modification (Loss)/gains, net	30	(237)	6
Profit before tax		1,945	2,446
Income tax expense	12	428	(306)
Profit for the year		2,373	2,140

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Other Comprehensive Income for the year ended 31 December 2020

	Notes	2020	2019
Profit for the year		2,373	2,140
Other comprehensive income	13	(732)	718
Items that will not be reclassified to profit or loss		9	9
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	-
Income tax relating to items that will not be reclassified	13	9	9
Items that may be reclassified to profit or loss		(741)	709
Hedging instruments		3	(186)
Debt instruments at fair value through other comprehensive income		(744)	895
Income tax relating to items that may be reclassified to profit or (-) loss	13	-	-
Total comprehensive income for the year		1,641	2,858
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)		19.73	17.79
Diluted earnings per share (HUF)		19.73	17.79
Weighted average number of shares		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Financial Position as at 31 December 2020

	Notes	31 December 2020	31 December 2019
Assets			
Cash, cash balances at central banks and other demand deposits	14	1,499	1,070
Financial assets held for trading	15	103	175
Financial assets at fair value through other comprehensive income	16	34,889	43,734
Financial assets at amortised cost	17	573,880	294,526
Derivatives – Hedge accounting	29	926	2,676
Investments in subsidiaries, joint ventures and associates	18	-	-
Tangible assets	19,21	125	157
Intangible assets	20	208	241
Tax assets	12	348	-
Other assets	22	163	318
Total assets		612,141	342,897

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Financial Position as at 31 December 2020

	Notes	31 December 2020	31 December 2019
Liabilities			
Financial liabilities held for trading	15	88	136
Financial liabilities designated at fair value through profit or loss	23	6,484	6,552
Financial liabilities measured at amortised cost	24	538,318	269,895
Derivatives – Hedge accounting	29	284	288
Provisions	25,30	116	509
Tax liabilities	12	4	93
Other liabilities	26	163	381
Total liabilities		545,457	277,854
Equity			
Share Capital	27	10,849	10,849
Share premium		27,926	27,926
Accumulated other comprehensive income	27	260	992
Retained earnings		24,319	22,416
Other reserve	27	1,164	927
Treasury shares (-)	27	(207)	(207)
Profit for the year		2,373	2,140
Total equity		66,684	65,043
Total equity and total liabilities		612,141	342,897

Budapest, 6 April 2021



Dr. Gyula László Nagy
CEO




Attila Mészáros
Deputy CEO

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Cash Flows for the year ended 31 December 2020

	Notes	2020	2019
Cash flow from operating activities			
Profit for the year		2,373	2,140
Non-cash adjustments to net profit from			
Depreciation and amortization		58	270
Impairment/provision/ (-) Release of impairment/provision for losses		124	2,076
Provision/ (-) Release of other impairment/ provision		(383)	(55)
Loss on tangible assets derecognized		3	16
Interest expense on the lease liability		1	(1)
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		856	(1,866)
Fair value adjustments on financial liabilities designated at fair value through profit or loss		(68)	(885)
Operating profit before change in operating assets		2,964	1,695
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		1,800	1,484
Financial assets at amortised cost		(279,265)	(40,598)
Other assets		7,257	1,352
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		59,144	(2,834)
Other liabilities		(720)	(-3,605)
Net cash flow from operating activities		(208,820)	(42,506)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Cash Flows for the year ended 31 December 2020 (continued)

	Notes	31 December 2020	31 December 2019
Cash flow from investing activities			
Proceeds from sales of tangible and intangible assets		(3)	(51)
Purchase of tangible and intangible assets		(2)	-
Sales of subsidiary		-	31,978
Net cash outflow from investing activities		(5)	31,927
Cash flow from financing activities			
Repayment of leasing liabilities		(25)	(42)
Repayment/borrowing of long term loans		209,279	10,378
Net cash outflow from financing activities		209,254	10,336
Increase/ (-) Decrease in cash and cash equivalents		429	(244)
Opening balance of cash and cash equivalents		1,070	1,314
Closing balance of cash and cash equivalents		1,499	1,070
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		872	915
Due from banks with a maturity of less than 90 days		627	155
Closing balance of cash and cash equivalents		1,499	1,070
Supplementary data			
<i>Interest received</i>		11,449	10,261
<i>Interest paid</i>		(8,237)	(7,698)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Separate Statement of Changes in Equity for the year ended 31 December 2020

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
At 1 January 2019		10,849	27,926	274	22,631	712	(207)	62,185
Profit for the year		-	-	-	2,140	-	-	2,140
Other comprehensive income for the year		-	-	718	-	-	-	718
General reserve		-	-	-	(215)	215	-	-
At 31 December 2019		10,849	27,926	992	24,556	927	(207)	65,043
1 January 2020 - Opening		10,849	27,926	992	24,556	927	(207)	65,043
Profit for the year		-	-	-	2,373	-	-	2,373
Other comprehensive income for the year		-	-	(732)	-	-	-	(732)
General reserve		-	-	-	(237)	237	-	-
At 31 December 2020		10,849	27,926	260	26,692	1,164	(207)	66,684

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**1. DESCRIPTION OF THE BANK**

The separate financial statements for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 6 April 2021. The final approval on the separate financial statements is provided by the General Meeting.

Name: Takarék Mortgage Bank Co. Plc.
Seat: 1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website address: [https:// www.takarekjb.hu](https://www.takarekjb.hu)
Mailing address: 1908 Budapest
Phone number: +36 1 3344 344
Registration number: 01-10-043638
Tax number: 12321942-4-44
KSH statistical number sign: 12321942-6492-114-01
Year of foundation: 1997

Chairman of the Supervisory Board: Dr. Zsolt Harmath
Chairman of the Board: József Vida
Chairman: József Vida

Takarék Mortgage Bank Public Limited Company (hereinafter Takarék Mortgage Bank Co. Plc., Mortgage Bank, Bank, Company) was established on October 21, 1997 under the name of FHB Land Credit and Mortgage Bank Company.

The Bank's operations are provided by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institution Act), as well as Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds.

The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.

The Bank's core business as a specialized credit institution includes primarily the disbursement of long-term refinancing loans secured by mortgaged properties, and the issuance of long-term mortgage covered bonds (mortgage bonds) since 2018.

On September 23, 2015 the Bank entered into the integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the former Bank Group are under the combined supervision of the MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Group from 1st of January 2017 onwards.

From 24 September 2015 the principle of joint and several responsibilities defined in the Section 4 of Article 1 of Szhitv covers also Mortgage Bank and Takarék Commercial Bank (hereinafter Commercial Bank), according to the decision of the Board of Directors of MTB Ltd. The Takarék Mortgage Bank and Commercial Bank became member of the Guaranty Community of Savings Cooperatives.

In December 2017 the Bank sold the majority of their direct and indirect investments leaving Takarék Commercial Bank Ltd. amongst their shares unsold until the date 29 October 2019. At this time Takarék Mortgage Bank sold with this transaction all of their 51% share in Takarék Commercial Bank to the MTB Ltd. The Takarék Commercial Bank is integrated into the scope of consolidation of the parent company MTB Ltd.

The services previously provided by the Mortgage Bank (full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision and leasing activity), are provided by MTB Ltd. to the Mortgage Bank within the framework of SLA contract.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The Commercial Bank, as the agent of the Takarék Mortgage Bank Co. Plc., were fully responsible for direct lending, furthermore performs loan aftercare and qualified loan management until the date 31 October 2019 then was merged into Takarékbank Ltd. Although, Takarék Commercial Bank, in order to have favourable funding costs, had part of their loans refinanced by the Takarék Mortgage Bank Co. Plc. Following the merger of the Commercial Bank, the Takarékbank Ltd. carries out the credit management and qualified loan management activities in respect of the Mortgage Bank's own loan portfolio, and the Mortgage Bank refinances part of Takarékbank Zrt's mortgage loan portfolio. The Mortgage Bank starting in April 2018 cancelled its own new lending activity.

MTB Bank of Hungarian Savings Cooperatives Co. Ltd. the Company's qualified majority owner, MKB Bank Plc. and Budapest Credit and Development Bank Private Company Limited by Shares established Magyar Bankholding Ltd. (cg.: 01-10-140865; registered office: 1122 Budapest, Pethényi köz 10.) on 26 May 2020 with 33.33% direct participation of MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Based on the authorisation of the National Bank of Hungary, the Budapest-Capital Regional Court as Court of Registration registered Magyar Bankholding Ltd. in the company register with its resolution no. 01-10-140865/5.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December, after MNB (acting as the central bank of Hungary) approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company. By transferring the in-kind contributions, the second largest banking group in Hungary has been established, with the Hungarian State owning 30.35 percent of the shares through Corvinus International Investment Ltd., the previous direct owners of MKB acquiring 31.96 percent of the shares and the previous direct owners of MTB Ltd. acquiring 37.69 percent of the shares.

Following the successful transfer of the in-kind contributions, the financial holding company will exercise prudential control and group management functions over the three banking groups and will plan and conducts a merger process that optimizes the operation of banks. The detailed merger roadmap and business strategy will be developed and the exploiting synergies from group operations will take place in 2021. For the time being, Budapest Bank, MKB and Takarékbank will retain their legal status and will operate as separate entities with independent brands until their integration.

MTB Bank of Hungarian Saving Cooperatives Co. Ltd. as the Company's qualified majority owner made a mandatory public purchase offer for all shares issued by Takarék Mortgage Bank Co. Plc. on 30 December 2020.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in all material respects in accordance with the provisions of the Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing financial statements in accordance with IFRS adopted by the EU. The auditor is issued in a separate report that the Bank is in compliance with the IFRSs adopted by the EU.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

2.2. Functional and presentation currency

The separate financial statements are presented in Hungarian forint (HUF) that is the functional and presentation currency used by Bank. The figures are rounded to the nearest million, except if indicated otherwise.

2.3. Basis of measurement

The separate financial statements have been prepared on a historical cost bases, except for financial assets and liabilities held for trading, financial assets at fair value through other comprehensive income (FVOCI) and financial liabilities designated at fair value through profit or loss, that are recorded at fair value in the financial statements.

2.4. Change in accounting policies

2.4.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2020

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”** – Interest rate Benchmark Reform - adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 16 “Leases”** – Covid 19-Related Rent Concessions adopted by EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020),
- **Amendments to IFRS 3 “Business Combinations”** – adopted by EU on 21 April 2020 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank’s financial statements.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**2.4.2. Impact of IFRS 16**

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. However pursuant to IFRS 1 an entity shall apply same accounting policies in its opening IFRS balance sheet and its first IFRS financial statements too. This involves the Bank shall apply this standard for annual reporting periods beginning on or after 1 January 2018 yet. The Bank shall adjust the comparative information for the earliest prior period presented as if the new IFRS 16 standard had always been applied considering the exemptions by IFRS 1 admitted.

The Bank at the date of 1 January 2018 assessed under IFRS 16 whether a contract is, or contains, a lease.

2.4.3. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2** adopted by EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021)
- **Amendments to IFRS 4 “Insurance Contracts” deferral of IFRS 9** adopted by EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021).

The Bank has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Separate Financial Statements of the Bank in the period of initial application.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**2.4.4. Standards and Interpretations issued by IASB, but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

- **IFRS 17 “Insurance Contracts” including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 “Business Combinations”; IAS 16 “Property, Plant and Equipment”; IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - Annual Improvements (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Separate Financial Statements of the Bank in the period of initial application.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3. SIGNIFICANT ACCOUNTING POLICIES****3.1. Categories of financial instruments**

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Financial assets held for trading
- Securities at fair value through other comprehensive income
- Financial assets at amortised cost:
 - Due from banks
 - Loans and advances to customers at amortised cost
 - Securities
- Derivatives – Hedge accounting

The Bank groups the recognised financial liabilities as follows:

- Financial liabilities held for trading
- Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost (other financial liabilities):
 - Due to banks
 - Deposits from costumers
- Derivatives – Hedge accounting

3.2. Cash and cash equivalents

For the purpose of the Separate Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.

Cash and cash equivalents are presented in the statement of financial position at amortised cost.

3.3. Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.

Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading result'. The resulting gain or loss is recognised immediately in 'Net trading result'.

Derivatives include forwards, futures, swaps and options.

3.4. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses (Fair value difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on this items are recognized consolidated statement of profit or loss.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

All investments in equity instruments that are not held for trading are classified as at equity instruments measured at fair value through other comprehensive income. The Bank shall make an irrevocably election to measure the investments in equity instruments at initial recognition on a share-by-share basis. Equity instruments at fair value through other comprehensive income are measured at fair value and the total changes in fair value are presented in other comprehensive income. Amounts presented in other comprehensive income are not transferred to profit or loss, even if the investment were sold. The dividends earned on equity instruments are recognised in consolidated statement of profit or loss.

3.5. Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, the partner credit institution sells independent mortgage rights to the Bank to cover the retail mortgage loans it provides, or - in case of applying a separate mortgage right – in addition by the transfer of the mortgage rights, uses a refinancing mortgage loan from the Bank.

The repurchase of the stand-alone mortgage and the repayment of the refinancing mortgage loan is carried out by the partner credit institution during the period of the refinanced loan transactions in such a way that the repurchase or repayment is adjusted to the partner bank's client's principal repayment schedule.

The refinanced loans of the partner banks meet the requirements regulated by law (therefore these loans are problem-free), the rating and impairment recognition obligation, as well as the receivable from the customer is recognised the given commercial bank.

Refinanced mortgages are classified as performing because by purchasing a stand-alone line or a separate line, the Bank lends a long-term loan to the partner commercial bank and the customer risk is recognised entirely at the partner bank, the Bank is only exposed to the partner bank's credit risk. The Bank presents refinanced mortgage loans at amortized cost less impairment (if there is any).

3.6. Loans and advances to customers, due from banks at amortised cost

The Bank measures at amortised cost those Loans and placements with other banks, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank recognises as loans measured at fair value through profit or loss those financial assets, which are held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.7. Restructuring of loans**

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank doesn't measure any significant gain or losses on the restructuring loans.

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.

In case of renegotiated loans the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, Bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on restructured loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

3.8. Impairment losses on loans

Impairment losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model allowance for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition, unless purchased or originated credit-impaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss. An assets that meet the definition of default criteria step into the third stage.

Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition in accordance with IFRS 9 (they meet the definition of default). For purchased or originated credit-impaired (POCI) assets shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses.

3.9. Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The cost of an item of tangible and intangible asset includes the following elements:

- a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and;
- b) any costs directly attributable for the assets to be ready their intended use:
 - costs of employee benefits,
 - costs of site preparation,
 - delivery and handling costs,
 - insurance fees,
 - installation and assembly costs,
 - costs of testing,
 - professional fees,
 - costs of parts and maintenance equipments.
- c) the initial estimate of the costs of dismantling and removing the item.

Following elements of costs that are not costs of an item of tangible asset are:

- costs of opening a new facility,
- costs of introducing a new product or service,
- costs of conducting business in a new location or with a new class of customer,
- administration and other general overhead costs.

Recognition of costs in the carrying amount of an item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs that incurred while an item capable of his intended operating has yet to be brought into use or is operated at less than full capacity are not included in the carrying amount. Furthermore neither initial operating losses nor costs of relocating or reorganising the Bank's operations are not included.

Depreciation is charged to the statement of profit or loss in the period to which it relates. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Property	2%
Now own- leasehold improvement	6%
Equipment and furniture	9% - 33%
Software	10% - 33%
Rights representing assets	3.5% - 16.7%
Hardware	33% - 50%
Vehicles	20% - 33%
Other fixed assets	9% - 14,5%

Intangible assets have a definite useful life, excluding goodwill.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.10. Leases**

The Bank assessed all lease contracts entered into or modified after the date of 1 January 2018 under IFRS 16 whether a contract is, or contains, a lease.

Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets. An agreement transfers the rights to control the use of an identified asset, if:

- An agreement contains identified asset. An asset can also be identified by being explicitly or implicitly specified in a contract. An asset has to be physically distinct or it represents substantially all of the capacity of the asset. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.
- The customer has the right to direct the use of the identified asset throughout the period of use. The lessee has this right if, within the scope of its right of use defined in the contract, the customer has the right to direct how and for what purpose the asset is used throughout the period of use. In that case, the relevant decisions about how and for what purpose the asset is used are predetermined, the customer has the right to direct the use of that asset following one of:
 - the customer has the right to operate the asset throughout the period of use; or
 - the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Bank applies the available expedients for all asset being leased, so decided not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Bank shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The Bank elect not to apply the requirements of IFRS 16 Leases to intangible assets.

The Bank as a lessee

The Bank as lessee shall recognise a right-of-use asset and a lease liability at the commencement date of the lease agreement. Right-of-use assets are initially measured at cost. The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee; and
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out restoration
- less any lease incentives received.

After the commencement date, the Bank shall measure the right-of-use asset applying a cost model. The Bank depreciates the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The determination of the useful life of the right-of-use assets are presented similar to owned property, plant, equipment and vehicles. The Bank applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise any impairment loss identified in accordance with the standard.

The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

If that rate cannot be readily determined, the Bank use the lessee's incremental borrowing rate. Typically the Bank use its own incremental borrowing rate to recognise lease liabilities. At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date);
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- payments of contractual penalties for terminating the lease, if the lease period reflects that the Bank used the option of terminating the lease;
- less any lease incentives receivable.

After the commencement date, the Bank shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Bank shall remeasure the lease liability, if either:

- there is a change in the lease term; or
- there is a change in the assessment of an option to purchase the underlying asset; or
- there is a change in the amounts expected to be payable under a residual value guarantee; or
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

The Bank shall recognise the amount of the remeasurement of the lease payments as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank shall recognise any remaining amount of the remeasurement in profit or loss.

The Bank did not present the right-of-use assets separately in the statement of financial position that does not meet the definition of investment property include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned. The Bank are presented lease liabilities in the statement of financial position as Financial liabilities measured at amortised cost.

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the statement of profit or loss as costs using the straight-line method during the life of the lease.

The Bank does not have right-of-use assets that meet the definition of investment property. In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The Bank as a lessee has typically property and company car lease agreements.

The Bank as a lessor

The Bank as a lessor shall classify the leases as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. When a contract includes both lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component. The Bank shall recognise lease payments from operating leases as income in profit or loss on a straight-line basis.

The Bank does not have sublease, sale and leaseback transactions. The Bank as a lessor has typically property lease agreements.

3.11. Non-current assets held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. The Bank must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell on initial recognition at the date of classification as held for sale.

An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

3.12. Impairment of non-financial assets

On the balance sheet date the Bank assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Bank estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators.

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.13. Current tax**

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.14. Deferred taxes

Deferred tax is provided on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. All deferred tax liabilities are recognized. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which it can be utilized. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current taxes liabilities and the deferred tax relate to the same company and the same tax authority.

3.15. Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

- a) a contractual obligation:
 - i. to deliver cash or another financial asset to another entity; or
 - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- b) a contract that will or may be settled in the entity's own equity instruments and is:
 - i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments .

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3.16. Financial liabilities carried at amortised cost

Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortised cost. At initial measurement, they are recognized at fair value plus transaction fees and charges should adjust the carrying amount at initial recognition that is directly attributable to the acquisition or issue of the financial liability.

The Bank has the following financial liabilities to finance its business: loans from the Hungarian state, interbank loans and deposits.

The bank shall classify in this category its non-trading bonds and other non-trading financial liabilities (for example accounts payable, bail/cash deposit)

Financial liabilities that are designated at amortised cost are measured subsequently at amortised cost using the effective interest method.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.17. Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised in the financial statements as financial liabilities and measured at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expense required to settle any financial obligation arising as a result of the guarantee.

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Impairment on financial assets not measured at fair value through profit or loss'.

3.18. Derecognition of financial instruments**3.18.1. Derecognising of financial assets**

The Bank derecognises a financial asset at fair value on the settlement date. The settlement date is the date that an asset is delivered by the Bank or the asset is terminated or expired.

A financial asset (or a part of a financial asset or a group of financial assets) is derecognised when:

- the rights under contract related to the cash flows from the financial asset cease; or
- the rights under contract related to the cash flows from the financial asset are transferred; or an obligation is undertaken by virtue of a transfer agreement to pay the cash flows from the financial asset to third parties; and
- the Bank has transferred substantially all risks and rewards of the asset, or
- the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has transferred control of the asset.

If the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has retained control of the financial asset, it continues to recognize the transferred asset in proportion to its continuing involvement. The rate of continuing involvement in a transferred asset is the Bank's rate of exposure to the risks associated with changes in the value of the transferred asset.

When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable shall be recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.18.2. Derecognising of financial liabilities**

A financial liability (or a part of a financial liability) is derecognised when it ceases, is executed or matured. Exchange or partial exchange of existing financial liabilities or a part thereof with significantly different terms and conditions or significant modification of its terms and conditions is also considered as cessation of the financial liability and is reported as a new financial liability, taking the relevant part of IFRS 9. The difference between the book value of, and the consideration paid for financial liabilities (or a part thereof) that ceased or have been transferred to third parties is reported in the profit or loss.

3.19. Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities is recognized in other operating expense.

3.20. Employee benefits**3.20.1. Short-term employee benefits**

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferral of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

3.20.2. Long-term employee benefits

The Bank has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Bank's policy.

In the normal course of business the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

3.21. Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. The repurchased treasury shares are recognised on its nominal value within 'Treasury shares' at the date, when a supreme member made a decision on repurchasing. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss. In case of beside the decision of repurchasing, if a supreme member is made a decision at the same time to call back shares, then the Bank is reclassified these shares to the liabilities till the date of the effective cancellation.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.22. Income and expense**

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Interest income and expenses related to financial instruments are separated by the Bank based on each financial instruments category.

Interest income and interest expenses are accounted on a gross basis by the Bank.

3.23. Fees and commission income and expenses

This group shall include fees and commission income and expenses that are not involved in the amortised cost model. Fees and commissions when they relate and have to be included in the amortised cost model shall immediately recognised in profit or loss.

Fees and commission incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.24. Interest subsidy*State interest subsidy- retail loans*

Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy). Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements*Mortgage bond interest subsidy*

The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

- i. Mortgage loans granted by the Bank or with partner banks; and
- ii. Independent and separated liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily balance of subsidized loans or mortgage bonds.

Supplementary interest subsidy- own loans

The amount of supplementary interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the client. The monthly interest subsidy is one-twelfth of the prevailing subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

3.25. Contingent liabilities / contingent assets

The Bank has recored into off-balance sheet their contingent liabilities, they are not recognised in the financial statements. The contingent liabilities are presented in the Notes. This off-balance sheet items such as guarantees and similar obligations, commitments to extend credit, accepted value of non-balance sheet assets serving as collateral for third party debt. Contingent liabilities are reported in the balance sheet when it becomes probable.

The Bank has recored into off-balance sheet their contingent assets, they are not recognised in the financial statements. The contingent assets are disclosed in the Notes where an inflow of economic benefits is probable (more than 50%).

This off-balance sheet items such as write-off uncollected debts, received guarantees and bailment.

3.26. Post balance sheet events

Events after the balance sheet date are those events that occur between the balance sheet date and the date when the financial statements are authorised by management (Board of Directors, Supervisory Board) for issue.

The Bank is identified adjusting events after the balance sheet date and non-adjusting events after the balance sheet date. Adjusting events after the balance sheet date are incidences that provide evidence of conditions that existed at the balance sheet date, but information are received after the balance sheet date. The Bank shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Non-adjusting events after the balance sheet date are incidences that are indicative of conditions that arose after the balance sheet date. The Bank shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date, but its expected effects are disclosed in the Notes when material.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.27. Offsetting**

The Bank does not offset financial assets and financial liabilities, incomes and expenses unless required or permitted by a standard or an interpretation. (For example year-end not realized foreign exchange gains and losses, or exceptional financial instruments and cash-flow statements.). Usually the Bank use offsetting if the economic events are the same or similar and gains and losses arising from similar transactions are not material or their separation is not material, when offsetting reflects the economic content better.

3.28. Foreign currency translation

Items included in the financial statements in foreign currencies are translated to the respective functional currencies of the Bank. Transactions in foreign currencies are like transactions that set in foreign currencies or have/had to paid in foreign currencies.

At initial recognition the Bank are translated transactions in foreign currencies to the respective functional currency at the valid NBH rate on the date of the transaction.

At the end of the reporting periods:

- monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate on the balance sheet date;
- non-monetary items reported at amortised cost are converted at the exchange rate on the initial day of the transaction; furthermore
- non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

3.29. Trade date and settlement date accounting

A regular purchase or sale of a financial asset is recognized on the date of delivery. Exemptions are derivatives where recognition of purchase is done on the day when the deal is contracted. The date of settlement is the day on which the Bank takes possession of the asset. A regular sale or purchase transaction is a transaction where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

3.30. Banktax

The Hungarian credit institutions are obliged to pay Bank tax from the year 2010.

From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to Hungarian Accounting Standards at the actual calendar year minus two years. The Bank tax is presented as other operating expense in the Separate Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

The total annual amount of the banking tax payable in 2019 and 2020 was already booked in one sum at the first of the year.

3.31. Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires using of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions the actual results may differ from those estimates. Estimates are applied in the following areas.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**Going concern**

The Bank's management assessed the Bank's capabilities to continue operation and found that the Bank has the resources necessary for continued operation in the foreseeable future. Furthermore, the management is not aware of any significant uncertainty that might raise serious doubts in respect of the Bank's ability to exist as a going concern.

Fair value of financial instruments

In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 29)

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 3.14)

Loan impairment test and its result

The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral. For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets

The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.

When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.

Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

3.32. Reclassification and error

After the balance sheet date of the consolidated financial statements of 2018 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**3.33. Changes in the legal and regulatory environment and its effect on the separate financial statements**

- Government Decree No. 47/2020 (III. 18.) on immediate measures necessary for alleviating the effects of the coronavirus pandemic on national economy, Government Decree No. 57/2020 (III. 23.) on enforcement measures, and Government Decree No. 62/2020 (III. 24) on detailed rules concerning payment moratorium;
- MNB Decree No. 5/2020 (III. 19.) of the Governor of the National Bank of Hungary (MNB) on the amendment of certain MNB decrees defining the requirements necessary for reducing systemic liquidity risks;
- Government Decree No. 637/2020 (XII.21.) on the introduction of the special rules of the payment moratorium related to the state of emergency.

The National Bank of Hungary relaunched its mortgage bond purchase programme, which was the most relevant of the National Bank's actions for Takarék Mortgage Bank. After the temporary freezing of the mortgage bond market and issuance, Takarék Mortgage Bank was the first to return and issue mortgage bonds in May within the framework of the National Bank's renewed mortgage bond purchase programme.

3.34. Change in estimates

There are not any significant areas, where there is any material change in estimates.

Notes to the Separate Financial Statements
4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
Interest income		
Financial assets held for trading	224	630
Financial assets at fair value through other comprehensive income	504	547
Financial assets at amortised cost*	10,033	7,963
Derivatives – Hedge accounting, interest rate risk	685	1,119
Interest income on financial liabilities	3	2
Total	11,449	10,261

* The securities portfolio was restructured during 2020. The Bank applied the contractual cash flow collection business model for securities purchased in 2020 and continuously sold its securities in the contractual cash flow collection and selling business model.

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
Interest expense		
Financial liabilities held for trading	222	352
Financial liabilities designated at fair value through profit or loss	271	271
Financial liabilities measured at amortised cost*	7,413	6,699
Derivatives – Hedge accounting, interest rate risk	318	375
Interest expense on financial assets	12	-
Other liabilities	1	1
Total	8,237	7,698

* To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset. Similarly to the ECB's steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity. The Bank actively participated at these tenders, and up to the end of 2020 it obtained HUF 212,989 million long-term (3- and 5-year) loans, which is used to purchase securities with favourable yield characteristics.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
5. FEE AND COMMISSION INCOME AND EXPENSE

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
<i>Fee and commission income</i>		
Mortgage loans of the Bank	136	146
Handling commission	16	34
Real estate appraisal fee	365	299
Refinanced mortgage loans	171	112
Total	688	591

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
<i>Fee and commission expense</i>		
Fees and commissions to banks and to clearing house	9	8
Agency fee expense	1	13
Real estate appraisal fee	365	293
Treasury services	145	122
Other	1	-
Total	521	436

6. PROFIT/(LOSS) FROM FOREIGN EXCHANGE TRANSACTIONS

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
FX transactions realized gains	-	-
FX transactions non-realized gains/(loss)	100	(10)
Profit/(Loss) from foreign exchange transactions	100	(10)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
7. GAINS ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
Financial assets at fair value through other comprehensive income	611	588
Financial assets at amortised cost	(161)	(173)
Financial liabilities at amortised cost	42	8
Total	492	423

8. GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
IRS deals*	788	3,135
CCIRS deals**	(102)	(9)
MIRS deals***	(19)	(803)
FX transactions	5	(4)
Total	672	2,319

*IRS= Interest Rate Swap

**CCIRS=Cross Currency Interest Rate Swap

***MIRS=Monetary Interest Rate Swap

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
9. OTHER OPERATING INCOME AND EXPENSE

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
<i>Gains or (losses) on derecognition of non-financial assets, net</i>		
Sales of inventory	-	3
Sales of property, plant, equipments	(3)	16
Invoiced expenses and services	2	8
Other*	158	14
Total	157	41

* In 2020, the amount of the HUF 148 million competition supervision fine returned by the Hungarian Competition Authority on the basis of a final judgment was accounted for in other operating profit.

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
<i>Other operating income</i>		
Reversal of provision	396	49
Rental income on property	-	2
Invoiced expenses and services	86	718
Other income	48	18
Total	530	787

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
<i>Other operating expense</i>		
Donation	3	1
Loss on damages compensations paid	1	2
Other expense	12	5
Total	16	8

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
10. GENERAL AND ADMINISTRATIVE EXPENSES

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
Staff costs	207	315
Marketing and advertising	1	127
General and administrative costs	93	773
Rental fee	19	21
Depreciation of tangible assets	33	120
Amortisation of intangible assets	25	36
Consultancy fees	185	242
Maintenance costs	350	836
Banking tax	98	76
Other taxes	177	192
Insurance fees	5	8
Database system usage	60	29
Supervisor fee	38	43
SLA service costs*	505	-
CBIC** fee, CBIC** Capital Fund and Res- olution and Compensation Fund fees	531	394
Other	39	125
Total	2,366	3,337

*SLA service costs based on the framework of SLA settlement agreement among the members of the MTB Bank group. (Including HR services, IT services, accounting services, compliance services, controlling management services, marketing services, legal services, back-up operations)

**CBIC= Central Body of Integrated Credit Institutions

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
11. STAFF COSTS

	1 Januar 2020- 31 December 2020	1 Januar 2019- 31 December 2019
Wages and salaries	180	255
Social security contribution	24	50
Other personnel related payments	3	10
Total	207	315

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The full time head count of the Bank at the end of the reporting period was 15 (2019: 14).

12. INCOME TAX

	31 December 2020	31 December 2019
Current income tax	(4)	0
Corporate income tax	(4)	0
Deferred tax income/ (expense)	432	(306)
Total	428	(306)

Reconciliation of expected tax based on book earnings and actual tax paid is presented as follows:

The Act LXXXI of 1996 on Corporate Tax Act applied 9% current income tax rate. Based on this information the Bank calculated the deferred tax with the 9% tax rate in 2020 and in 2019.

Based on the business plans of the Management the profit of the Bank in the foreseeable future will cover the accumulated deferred tax assets from tax loss carry forward. Based on the assumption the recognition of the deferred tax benefits is reasonable.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

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	31 December 2020	31 December 2019
<i>Profit and loss before tax</i>	1 945	2 446
Calculated corporate income tax (9%)	(175)	(220)
Items modifying the tax base	171	279
Remunerative/Unremunerative deferred tax because of change in business	383	(369)
Effect of other modifications	49	4
Total	428	(306)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Deferred tax position

	31 December 2020				
	Deferred tax as-sets	Deferred tax liabilities	Deferred tax net position	Income statement ef-fect	Deferred tax position in reserves
Items modifying corporate tax base	406		406	383	-
Effect of corporate tax of IFRS adoption	-	58	(58)	49	9
Effect of local business tax of IFRS adoption	-	-	-	-	-
Net deferred tax position	406	58	348	432	9

	31 December 2019				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income state-ment effect	Deferred tax position in reserves
Items modifying corporate tax base	-	(24)	24	(378)	-
Effect of corporate tax of IFRS adoption	-	117	(117)	58	-
Effect of local business tax of IFRS adop-tion	-	-	-	14	-
Net deferred tax position	-	93	(93)	(306)	-

The data of the table at 31 December 2019 and 2020 shows deferred tax position one tax authority against.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
13. OTHER COMPREHENSIVE INCOME
Components of other comprehensive income

	31 December 2020	31 December 2019
Items that will not be reclassified to profit or loss	9	9
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
including: decrease/derecognition from equity instruments measured at fair value	-	-
Income tax relating to items that will not be reclassified	9	9
Items that may be reclassified to profit or loss	(741)	709
Hedging instruments	3	(186)
Debt instruments at fair value through other comprehensive income	(744)	895
Income tax relating to items that may be reclassified to profit or (-) loss	-	-
Total comprehensive income	(732)	718

14. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

	31 December 2020	31 December 2019
Cash on hand	-	-
Cash balances at central banks	872	915
Other demand deposits	627	155
Total	1,499	1,070

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2020	31 December 2019
Financial liabilities held for trading		
IRS deals	81	97
CCIRS deals	-	22
MIRS deals	22	56
Total	103	175

	31 December 2020	31 December 2019
Financial liabilities held for trading		
IRS deals	14	39
MIRS deals	74	97
Total	88	136

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Equity instruments	10	10
Debt securities*	34,879	43,724
<i>from this: Government bonds</i>	<i>31,870</i>	<i>30,899</i>
<i>from this: Credit institution bonds</i>	<i>3,009</i>	<i>12,825</i>
Total	34,889	43,734

*The securities portfolio was restructured during 2020. The Bank applied the contractual cash flow collection business model for securities purchased in 2020 and continuously sold its securities in the contractual cash flow collection and selling business model.

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The Equity instruments contain securities acquired for non-trading purposes by the Bank that its ownership ratio is under 20%. The table below presents the fair value of these shares as at 31 December 2020:

Shares	Fair Value at 31 December 2020
MTB Bank of Hungarian Savings Cooperatives Co. Ltd.	-
Central Body of Integrated Credit Institutions	10
Takarék Egyesült Szövetkezet	-
Total	10

The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2020	31 December 2019
Debt securities gross*	229,366	999
<i>from this: Government bonds</i>	223,025	-
<i>from this: Mortgage bonds</i>	4,018	-
<i>from this: Corporate</i>	2,323	999
Impairment on debt securities	(32)	-
Loans gross	337,337	275,801
<i>from this: Due from banks</i>	287,397	216,985
<i>from this: Retail</i>	49,446	58,807
<i>from this: Corporate</i>	494	9
Impairment on loans	(866)	(988)
<i>from this: Due from banks</i>	(2)	(6)
<i>from this: Retail</i>	(840)	(907)
<i>from this: Corporate</i>	(24)	(75)
Advances gross	845	1,315
Impairment on advances	(11)	(12)
Deposit from central bank and other banks gross	7,243	17,411
Impairment on deposit from central bank and other banks gross	(2)	-
Total	573,880	294,526

*The securities portfolio was restructured during 2020. The Bank applied the contractual cash flow collection business model for securities purchased in 2020 and continuously sold its securities in the contractual cash flow collection and selling business model.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
18. SUBSIDIARIES

The year of 2019 the Bank's subsidiary was sold at book value.

19. TANGIBLE ASSETS

31 December 2020	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	358	420	778
Increase	-	1	1
Decrease*	(322)	(226)	(548)
Closing balance	36	195	231
Depreciation			
Opening balance	348	329	677
Annual depreciation	5	9	14
Decrease*	(321)	(215)	(536)
Closing balance	32	123	155
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	4	72	76

*In 2020 the Bank scrapped and derecognized its tangible assets that had become redundant.

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

Tangible assets of the separate financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 49 million as at 31 December 2020. (Note 21)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

31 December 2019	Property	Office equip- ment	Total tangible assets
Gross value			
Opening balance	358	463	821
Increase	-	-	-
Decrease	-	(43)	(43)
Closing balance	358	420	778
Depreciation			
Opening balance	295	330	625
Annual depreciation	53	23	76
Decrease	-	(24)	(24)
Closing balance	348	329	677
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	10	91	101

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

Tangible assets of the separate financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 56 million as at 31 December 2019. (Note 21)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
20. INTANGIBLE ASSETS

31 December 2020	Software	Other intangi- ble assets	Total
Gross value			
Opening balance	1,238	64	1,302
Increase	1	-	1
Decrease	(61)	(64)	(125)
Closing balance	1,178	-	1,178
Depreciation			
Opening balance	893	64	957
Annual depreciation	25	-	25
Decrease	(46)	(64)	(110)
Closing balance	872	-	872
Impairment			
Opening balance	104	-	104
Increase	-	-	-
Decrease	(6)	-	(6)
Closing balance	98	-	98
Net value	208	-	208

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2020.

The Bank estimates the recoverable amount of the intangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

31 December 2019	Software	Other intangible assets	Total
Gross value			
Opening balance	1,242	64	1,306
Increase	-	-	0
Decrease	(4)	-	(4)
Closing balance	1,238	64	1,302
Depreciation			
Opening balance	859	64	923
Annual depreciation	36	-	36
Decrease	(2)	-	(2)
Closing balance	893	64	957
Impairment			
Opening balance	-	-	-
Gross value	104	-	104
Opening balance	-	-	-
Increase	104	-	104
Net value	241	-	241

In the context of the impairment test of intangible assets the Bank reviewed projects in the course of construction but not yet capitalized by 31 December 2019.

The Bank estimates the recoverable amount of the intangible asset and the impairment for the year is related to IT software where the recoverable amount is lower than the net asset value. The impairment is presented on the "Reversal of impairment on non-financial assets" line in the Separated Statement of Profit or Loss.

21. IFRS 16 LEASES
Right-of-use asset

	31 December 2020	31 December 2019
Owned property, plant and equipment	76	101
Right-of-use assets, expect investment properties	49	56
Total property, plant and equipment	125	157

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2020	31 December 2019
Short term	26	21
Long term	38	49
Total lease liabilities	64	70

Maturity analysis - undiscounted contractual payments

	31 December 2020	31 December 2019
Up to 1 year	26	21
1 year to 5 years	38	49
Total undiscounted lease liabilities	64	70

Right-of-use asset

	Property	Company Car	Total
Opening balane at 1 January 2019	42	11	53
Increase	68	-	68
Amortization for the year	(54)	-	(54)
Decrease	-	(11)	(11)
Balance at 31 December 2019	56	0	56
Increase	0	12	12
Amortization for the year	(17)	(2)	(19)
Decrease	-	-	-
Balance at 31 December 2020	39	10	49

Total cash outflow for leases

	31 December 2020	31 December 2019
Total cash outflow for leases	(25)	(42)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Items related to lease liabilities presented in profit or loss

	31 December 2020	31 December 2019
Interest expense on the lease liabilities	(1)	(1)
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	-
Income from subleasing right-of-use assets	-	-
Expenses related to short-term leases	-	-
Expenses related to leases of low-value assets, except the expense relating to short-term leases of low-value assets	-	-
Gains or losses arising from sale and leaseback transactions	-	-
Total	(1)	(1)

Items presented in the statement of cash flows

	31 December 2020	31 December 2019
Operating cash flow		
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	-	-
Cash payments for the principal portion of the lease liability	(25)	(42)

22. OTHER ASSETS

	31 December 2020	31 December 2019
Prepaid expenses	38	222
Settlements with the Hungarian State	-	1
Repossessed collateral	2	2
Reclaimable taxes*	117	75
Others	6	18
Total	163	318

* A significant amount of reclaimable taxes has been accrued due to the special epidemiological tax, as the Government Decree No. 108/2020 (IV.14.) on the special tax on credit institutions related to the epidemiological situation. The tax paid can be deducted from the special tax payment obligation of financial institutions in the next 5 years.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
23. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position.

Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than attributable to change in market conditions, that give right to market risk represent credit risk.

	31 December 2020		31 December 2019	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	6,484	5,970	6,552	5,768
Floating interest	-	-	-	-
Total mortgage bonds	6,484	5,970	6,552	5,768
Total Financial liabilities designated at fair value through profit or loss	6,484	5,970	6,552	5,768

The total credit risk which is due to financial liabilities through profit or loss was HUF 4.2 million as of 31 December 2020 (31 December 2019: HUF 197.6 million).

24. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2020	31 December 2019
Due to banks	1,259	-
Loans received*	212,989	3,710
Debt securities issued	322,551	265,929
Other financial liabilities	1,519	256
Total	538,318	269,895

*To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset. Similarly to the ECB's steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity. The first tender took place on March 25th. The fixed rate (valid through the entire maturity of the loan) is identical to the prevailing base rate (it was 0.9% at its launch, reduced to 0.75% on June 24th), resulting in a 50 to 60bp lower financing cost than in the case of interbank financing.

The Bank actively participated at these tenders, and up to the end of 2020 it obtained HUF 212,989 million long-term (3- and 5-year) loans, which is used to purchase securities with favourable yield characteristics.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
24.1. Issued debt securities

The Bank reports mortgage bonds and bonds that are recognised at amortised cost on 'Issued debt securities' line in the statement of financial position:

	31 December 2020		31 December 2019	
	Net book value	Face value	Net book value	Face value
<i>Non-listed mortgage bonds</i>				
Fixed interest	-	-	3,972	3,824
Floating interest	-	-	-	-
<i>Listed mortgage bonds</i>				
Fixed interest	292,039	283,164	218,819	214,137
Floating interest	30,512	30,406	43,138	43,017
Total mortgage bonds	322,551	313,570	265,929	260,978
Total issued securities	322,551	313,570	265,929	260,978

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**Mortgage bonds**

Mortgage bonds are transferable registered securities and, pursuant to the Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds (Mortgage Act), can be issued only by mortgage banks.

The obligations arising from the Mortgage Bonds are equal in rank to each other (*pari passu*) in the event of the liquidation of the Issuer or in the enforcement proceedings initiated against it. Unlike the Issuer's other unsecured, non-subordinated obligations, they enjoy a special status under the Section 20 and 21 of the Mortgage Act, given that these claims do not form part of the liquidation assets.

The Act provides that mortgage credit institution shall always possess collateral surpassing of the outstanding nominal value and interest of the outstanding mortgage bonds both on nominal and based on present value calculation.

The independent property supervisor monitors and certifies the permanent availability of the collateral for the mortgage bonds, as well as the registration of the collateral providing the ordinary collateral of the mortgage bonds, of their real estate registration data and loan to value, as well as of the ordinary and additional collateral.

These collaterals may be (i) ordinary collaterals such as the principal arising (including interest subsidies) from a mortgage loans or a refinancing mortgage loan and interest due under the contract provided in accordance with the standard collateral requirements, the repurchase price of an independent lien and the related refinancing interest, and (ii) additional collateral such as, typically, government bonds and related interest and any principal and interest receivable guaranteed by the government.

Loans secured by a residential real estate can be taken in cover up to 70% of the mortgage lending value of the property. In case of loans secured by commercial real estate the limit is 60%.

The Act requires the proportionate between ordinary and additional collaterals: at least 80% of the total collateral must be ordinary collateral.

Bonds

From 2007 the Bank issued senior unsecured bonds in addition to mortgage bonds. However, the Bank did not issue senior unsecured bonds in 2019 and 2020.

Bonds are registered dematerialized transferable debt securities issued on the basis of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December).

Bonds incorporate the Bank's direct, unconditional, non-subordinate unsecured liabilities, which are equal in rank (*pari passu*) to the Bank's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
25. PROVISIONS

Provisions are set up mainly for current and contractual obligation. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense or in other operating expense.

2020	Provision for loan commitments and guarantees	Contractual obligation	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2020	3	-	9	497	509
Increase in the period	17	-	6	-	23
Derecognition / Use of provision in the period	(19)	-	0	(397)	(416)
Closing balance at 31 December 2020	1	-	15	100	116

The net balance of provisions for losses and release of provisions in 2020 - HUF 393 million - of which HUF 3 million was recognized in the separate Statement of Profit or Loss under provisions, and HUF 396 million was recognized in other operating income related to expenses accounted for under SLA services costs as an item related to a billed IT rollout..

Individual Investors Interest Association (TEBÉSZ) filed a lawsuit in the Capital Court for the annulment of the Company's resolutions number; 4/2019 (08.27.), 6/2019 (08.27.) and 7/2019 (08.27.) taken on the General Meeting of the Company held on August 27, 2019, and also asked the suspension of the enforcement of the resolutions. The Court of first instance rejected the lawsuit of TEBÉSZ on 17 of December 2020. The Company has no information about appeal against the judgement of TEBÉSZ.

However, in the unexpected event that the Company were to be unsuccessful in the second instance legal proceeding, even the not favorable judgment would have not cause any financial effects on the Company, because the lawsuit asked the annulment of the resolutions, and the Company still have the possibility to make the same resolutions again in the next General Meeting if it is necessary. In view of the above mentioned, provision was not set up in 2020.

2019	Provision for loan commitments and guarantees	Contractual obligation	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2019	11	2	6	553	572
Increase in the period	2	-	9	-	11
Utilization in the period	(10)	(2)	(6)	(56)	(74)
Closing balance at 31 December 2019	3	-	9	497	509

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
26. OTHER LIABILITIES

	31 December 2020	31 December 2019
Taxes payable	36	52
Accrued expenses	124	327
Other	3	2
Total	163	381

27. SHARE CAPITAL
27.1. Ownership structure

In 2019 there was major/significant changes in the share capital and ownership structure of the Bank. The MTB Bank of Hungarian Savings Cooperatives Co. Ltd. bought a big part of the Bank shares became the only directive owner.

The table shows the ownership structure of the owners from different sectors as follows:

Shareholder	31 December 2020		31 December 2019	
	Holding	Number of shares	Holding	Number of shares
	%		%	
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52.41	56,859,406	52.82	57,285,447
Foreign institutional investors	0.03	32,298	0.02	22,224
Domestic private investors	3.68	3,979,348	3.31	3,594,103
Foreign private investors	0.01	11,760	0.01	12,410
Employees, directors and senior management	0.00	0	0.00	-
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	4.45	4,832,225	4.45	4,832,225
Other	0.03	31,372	0	0
<i>Subtotal</i>	<i>60.84</i>	<i>66,000,010</i>	<i>60.84</i>	<i>66,000,010</i>
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
<i>Subtotal</i>	<i>13.05</i>	<i>14,163,430</i>	<i>13.05</i>	<i>14,163,430</i>
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
<i>Subtotal</i>	<i>26.11</i>	<i>2,832,686</i>	<i>26.11</i>	<i>2,832,686</i>
Total	100.00	82,996,126	100.00	82,996,126

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
27.2. Owners with more than 5% ownership relating to listed series

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	50,806,758	76.98%
Hungarian National Asset Management Inc.	no	4,832,225	7.32%
Takarék Limited Investment Fund	no	3,808,180	5.77%
Total		59,447,163	90.07%

27.3. Owners with more than 5% ownership relating to total equity

Name	Custodian Bank (yes/no)	Number of shares	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	67,802,874	86.00%
Hungarian National Asset Management Inc.	no	4,832,225	4.45%
Total		72,635,099	90.45%

27.4. Treasury shares purchased

	31 December 2020	31 December 2019
Opening balance	207	207
Purchase	-	-
Closing balance	207	207

During the reporting period there were no changes in the cumulative balance of Treasury share purchased.

27.5. Other reserve

	31 December 2020	31 December 2019
General reserve	1,164	927
Closing balance	1,164	927

27.5.1. General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 1,164 million as at 31 December 2020 (General reserve was HUF 927 million as at 31 December 2019).

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
27.6. Cumulated other comprehensive income

	2020	2019
Opening balance	992	274
Cumulated other comprehensive income	(732)	718
Items that will not be reclassified to profit or loss	9	9
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Income tax relating to items that will not be reclassified	9	9
Items that may be reclassified to profit or loss	(741)	709
Hedging instruments	3	(186)
Debt instruments at fair value through other comprehensive income	(744)	895
Income tax relating to items that may be reclassified to profit or loss	-	-
Closing balance	260	992

28. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the separate statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2020	31 December 2019
Loan commitments	22,120	18,094
Given bail	-	110
Total	22,120	18,204

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**29. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments stated at amortized cost: due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values. These include cash and due from banks and with the National Bank of Hungary as well as deposits.

Securities at fair value through other comprehensive income: Securities at fair value through other comprehensive income held for liquidity purposes are marked to market. For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

29.1. Loans and advances

The Bank calculates the fair value of loans and advances to customers and refinanced loans at amortized cost on an individual basis.

The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow.
- In case of loans where amortized cost is calculated with simplified approach no FV correction is applied.

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation, which contains the following components:

- Relevant market yield curve
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the investment timeline and the type of investment (for example in measuring the fair value of short term financial investment the current market sentiment to be better reflected a some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

	31 December 2020		31 December 2019	
	Net book value	Fair value	Net book value	Fair value
Loans, advances and securities	573,880	580,101	294,526	300,934

29.2. Fair value of other items in the statement of financial position

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

29.3. Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

	Fair value		Notional amount	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
IRS	81	97	8,879	4,841
MIRS	22	56	7,443	8,111
CCIRS	-	22	-	2,342
Total trading derivatives	103	175	16,322	15,294
Hedge deals	926	2,676	24,850	49,650
Total derivative financial assets	1,029	2,851	41,172	64,944

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

	Fair value		Notional amount	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
IRS	14	39	3,922	7,960
MIRS	74	97	5,660	4,992
Total trading derivatives	88	136	9,582	12,952
Hedge deals	284	288	4,799	4,799
Total derivative financial liabilities	372	424	14,381	17,751

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the derivatives are broken down to elementary cash flows and the present value is calculated. The present value of the future cash flows of fixed interest rate deals is calculated by the Bank using the zero-coupon swap yield curve corresponding to the appropriate currency. The fair value of swap deals is the difference of the present value of the two series of cash flows not yet due (incoming and outgoing).

In the case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal payments are discounted to present value using the multi-level yield curve (forward yield curve, and discounting curve). The fair value of the deal is the aggregate of the present values.

The risk premium is significant and permanent, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

For the Bank's existing derivative contracts designated as fair value hedges, the purpose of the transaction is to exchange fixed interest rate contracts for floating rate transactions and to hedge the resulting fair value risk. The parameters of the hedging instrument (maturity, amount, currency, interest rate, etc.) and thus its cash flow are the same as the parameters of the hedged security and the cash flow of capital and interest.

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly. The Bank introduced hedge accounting in the second quarter of 2019 for swap transactions in the individual IFRS financial statements of Bank. The effect of this is shown in the table on December 31, 2019 and 2020.

29.4. Fair value hedge transactions

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	Issued mortgage bonds	926	(63,958)	140	(209)
MIRS	Government bonds	(284)	5,761	183	(212)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**29.5. Fair value of financial instruments carried at fair value**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank calculates the fair value of non-trading financial assets mandatorily at fair value through profit or loss on an individual basis.

The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow
- In case of loans where amortized cost is calculated with simplified approach no FV correction is applied

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation, which contains the following components:

- Relevant market yield curve
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the investment timeline and the type of investment (for example in measuring the fair value of short term financial investment the current market sentiment to be better reflected a some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicity of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The following table shows an analysis of financial instruments carried at fair value.

	31 December 2020		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	103	-
Securities at fair value through other comprehensive income	31,880	3,009	-
Derivatives – Hedge accounting	-	926	-
Total assets carried at fair value	31,880	4,038	-

	31 December 2020		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	88	-
Financial liabilities designated at fair value through profit or loss	-	6,484	-
Derivatives – Hedge accounting	-	284	-
Total assets carried at fair value	-	6,856	-

	31 December 2019		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	175	-
Securities at fair value through other comprehensive income	43,734	-	-
Derivatives – Hedge accounting	-	2,676	-
Total assets carried at fair value	43,734	2,851	-

	31 December 2019		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	136	-
Financial liabilities designated at fair value through profit or loss	-	6,552	-
Derivatives – Hedge accounting	-	288	-
Total assets carried at fair value	-	6,976	-

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Notes to the Separate Financial Statements**30. RISK MANAGEMENT****30.1. Overview**

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). Due to the membership of Integration the scope of the risk management policies of the Integration, as well as risk strategy have been extended to the Bank.

Based on the Section 5 of Article 1 of the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv) the Integration Organisation and its members are required to accept joint and several responsibility for each other's obligations according to the Act V of 2013 on the Civil Code (Civil Code). The joint and several responsibility system cover also all the receivables to Integration Organisation and its members, independently the date of its occurrence.

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to Credit Institution Act.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of credit institutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary (MNB) authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December, after MNB approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company.

Following the transfer of the in-kind contributions, the financial holding company will exercise prudential control and group management functions over the three banking groups.

Risk Strategy – approved by the Board of Directors of MTB Ltd. is mandatory for credit institutions and companies under consolidated supervision led by MTB Ltd. – cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and risk capacity, risk structure, risk management, the structure and organization of risk management.

The Integration and its member institutions seek to create an integrated risk culture which covering the whole Integration and which is in line with their risk appetite, and their risk tolerance ensure the identification, measurement and management of the emerged risks. The primary tools for creating a risk culture are internal policies, strategies, regulations and guidelines, communication and training of employees.

The risk capacity of Takarék Mortgage Bank Plc. should be in line with the financial resources that are available to cover potential losses. In order to this the current and future economic, capital requirements and the capital requirements under Pillar 1 for quantifiable risk types are calculated.

Prudent risk taking is a fundamental value for the Bank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

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The Risk Strategy is based on the following main pillars:

- in risk management application of the best approaches and methods applied in market practice
- identification of risk and yield profile of segments, products and risk positions and continuous monitoring
- consideration of the risks in business decisions
- separation the risk management organisation from the business division
- the importance of all stages of the risk management process
- the risk management process is the part of the Bank Group's management system, its aspects are integrated into the strategic and annual planning.

The exposure is basically credit-, liquidity-, market- and operational risks.

30.2. Risk management structure

Board of Directors

The Boards of Directors of the banks are responsible for the Takarék Mortgage Bank's and Takarékbank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership Takarék Mortgage Bank follows the Integration Risk Policy/ Strategy, applies uniform risk management policies and reports about its risks to the Central Bodies of the Integration (IHKSZ) and to the Integration Business Management Organization (MTB Ltd).

Based on regular risk exposure reports, the Boards of Directors evaluate the risk management activities and the level of exposure of the banks. If the level of exposure undertaken by the banks does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

The Supervisory Board of the Bank is responsible for monitoring the overall risk and risk management processes within the Bank. In this context it also supervises and monitors the suitability of methods and systems applied by the Bank in order to ensure compliance with the statutory capital adequacy requirements.

Risk Control and Assets and Liabilities Committee (KK-EFB)

The Risk Control and Assets and Liabilities Committee is exercised its authority on an individual level referring to the Bank.

The Risk Control and Assets and Liabilities Committee is exercised its authority relating to the asset and liability management, planning /controlling, pricing, sales, product development, market risk management, liquidity risk management, credit and counterparty risk, concentration risk, and operational risk management, risk policy/ risk strategy, capital management and internal instructions on matters entrusted to the Committee.

The responsibilities of the Risk Control and Asset-Liability Committee include asset-liability management, planning / controlling, pricing, sales, product development, market risk management, liquidity risk management, credit and counterparty risk, concentration risk, and operational risk management. risk policy / risk strategy, capital management and internal instructions on matters entrusted to the Commission.

It constantly monitors the liquidity position of Takarék Mortgage Bank and makes proposals on its interest rate policy. It creates and continuously maintains a balance between income and liquidity, always adhering to the principles of prudent operation.

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Notes to the Separate Financial Statements**Refinancing Lending Committee**

The purpose of the operation of the Refinancing Lending Committee is to make the necessary decisions to establish certain terms and conditions of the Bank's refinancing business that will be concluded with a particular partner bank (framework agreement).

Non-performing Loan Committee (NPLB)

The NPL Committee is exercised its authority on an individual level referring to the Bank.

The NPL Committee:

- discusses in advance the NPL strategy and its revision and the related implementation plan and its revision, makes a proposal to the Board of Directors for its adoption,
- supports the Board of Directors in its oversight of the practical implementation of the NPL strategy and the management of non-performing exposures,
- its task is the practical implementation of the NPL Strategy, the adoption of the necessary measures, and the performance of supervisory activities over the management of non-performing exposures,
- decides on impairment methodological issues,
- approves quarterly impairment accounts and provisions related to lending activities,
- controls individual monitoring and individual impairment processes.

Department of Risk Management (Strategic risk management) is responsible for determining the requirements necessary for the prudent operation. They develop the risk guidelines and manage credit, liquidity, market and operational risk.

Internal Audit

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank's all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

Risk management processes are audited regularly by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Supervisory Board and the Management of the Bank.

Risk evaluation and reporting system

The Bank is measured the risk exposure in accordance with the methods defined in laws and integration policies.

In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Bank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure.

The Boards of Directors and The Supervisory Board evaluate the reports on risks on a quarterly basis.

30.3. Risk mitigation**Interest rate and exchange rate risks**

To minimize the risk of interest- and foreign exchange rate risks the Banks manage their asset and liability structure.

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Notes to the Separate Financial Statements**Credit risk**

Credit risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation to the Bank.

The Bank is suspended the new loan placement activity based on strategy decision during 2018, keep handling the existing loan portfolio. Therethrough the Bank monitors client and partner rating on an ongoing basis.

The Bank rates the creditworthiness of their clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitors client and partner rating on an ongoing basis.

Risk taking to retail clients is based on the use of standardized loan schemes and lending processes, resulting in a portfolio characterized by high number of customers, small amounts of individual loans and diversification.

Corporate lending is based on individual assessment and the continuous monitoring is in focus. The Bank applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

30.4. Credit risk**30.4.1. Credit rating**

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the European Union (EU).

Impairment

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortized cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to as "Financial Assets"). This contrasts to the IAS 39 impairment model which was not applicable to loan commitments and financial guarantee contracts, as these were instead covered by International Accounting Standard 37: "Provisions, Contingent Liabilities and Contingent Assets" (IAS 37).

Under IFRS 9, the Bank first evaluates individually the Financial Assets whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three stage approach to impairment for Financial Assets that are performing at the date of origination or purchase. This approach is summarised as follows.

Stage 1:

The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

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Stage 2:

The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3:

The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Bank definition of default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios as described below. Financial Assets that are credit impaired upon initial recognition are categorised purchased or originated credit-impaired (POCI) with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these (POCI) assets is discussed further below.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Bank historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e., Stage 1 to Stage 2). The Bank's framework aligns with the internal Credit Risk Management process and covers rating related and process related indicators which are discussed further in the section below on Model Descriptions.

Credit Impaired Financial Assets in Stage 3

The Bank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.

The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The Bank considers the obligor is unlikely to pay its credit obligations. Determination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that are qualitative indicators of credit impairment; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.

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Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

A Financial Asset can be classified as in default but without an allowance for credit losses (i.e., no impairment loss is expected). This may be due to the value of collateral. The Bank's ECL calculation is conducted on a quarterly basis.

Default

The Bank uses the CRR definition of default as a primary indicator of loss events in accordance with Article 178 (1) of CRR.

A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

- (a) the Bank considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security;
- (b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

Purchased or Originated Credit Impaired Financial Assets

A Financial Asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition (i.e., rated in default by Credit Risk Management). Such defaulted Financial Assets are termed POCI Financial Assets. Typically the purchase price or fair value at origination embeds expectations of lifetime expected credit losses and therefore no separate credit loss allowance is recognised on initial recognition. Subsequently, POCI Financial Assets are measured to reflect lifetime expected credit losses, and all subsequent changes in lifetime expected credit losses, whether positive or negative, are recognised in the income statement as a component of the provision for credit losses.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in Provision for impairment losses in the consolidated statement of Profit or Loss.

30.4.2. Model Descriptions - Expected Credit Loss**Stage determination**

At initial recognition, Financial Assets which are not POCI are reflected in Stage 1. If there is a significant increase in credit risk, the Financial Asset is transferred to Stage 2. Significant increase in credit risk is determined by using rating-related and process-related indicators as discussed below. In contrast, the assignment of a financial instrument to Stage 3 is based on the status of the obligor being in default.

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Rating-Related Indicators: Based on a dynamic change in counterparty PDs that is linked to all transactions with the counterparty, the Bank compares lifetime PD at the reporting date, with expectations at the date of initial recognition. Based on historically observed migration behaviour and available forward-looking information, an expected forward rating distribution is obtained. A quantile of this distribution, which is defined for each counterparty class, is chosen as the threshold. If for the remaining lifetime the PD of a transaction given current expectations exceeds the PD of the relevant threshold rating, the Financial Asset is considered as significantly deteriorated. The thresholds used to determine Stage 2 indicators are determined using expert judgment and validated annually.

Process-Related Indicators: Process-related indicators are derived via usage of existing risk management indicators, which allow the Bank to identify whether the credit risk of Financial Assets has significantly increased. These include obligors being added mandatorily to a credit watchlist, being mandatorily transferred to workout status, payments being 30 days or more overdue or in forbearance.

On an ongoing basis, as long as the condition for one or more of the indicators is fulfilled and the Financial Asset is not recognized as defaulted, the asset will remain in Stage 2. If none of the indicator conditions is any longer fulfilled and the Financial Asset is not defaulted, the asset transfers back to Stage 1. In case of a default, the Financial Asset is allocated to Stage 3.

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.

Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk. The expected lifetime is estimated by taking into consideration historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. Where such facilities are subject to an individual review by Credit Risk Management, the lifetime for calculating expected credit losses.

Forward-Looking Information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into allowance for credit losses, the Group uses two key elements: As its base scenario, the Bank uses the macroeconomic forecasts provided by Hunarian National Bank. These forecasts cover a number of macroeconomic variables (e.g., GDP, unemployment rates) and reflect Regulator search's view as to the most likely development of those variables, typically over a two year period and updated quarterly.

This base scenario is then translated into a multiple scenario analysis by leveraging the stress test environment. This environment generates the impact of a multitude of economic scenarios and is used as basis for deriving multi-year PD curves for different rating and counterparty classes, which are applied in the calculation of expected credit losses and in the identification of significant deterioration in credit quality of Financial Assets.

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The general use of forward-looking information, including macro-economic factors, as well as adjustments taking into account extraordinary factors, are monitored by the Bank's Risk Management.

Assumptions and the Estimation Techniques

IFRS 9 does not distinguish between individually significant or not individually significant Financial Assets and as such the Bank calculates expected credit losses for each Financial Asset individually. Similarly, the determination of the need to transfer between stages is made on an individual asset basis.

The Bank uses three main components to measure ECL. These are PD, Loss Given Default (LGD) and Exposure at Default (EAD).

Incorporating forecasts of future economic conditions into the measurement of expected credit losses influences the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes deriving the corresponding lifetime PDs from migration matrices that reflect economic forecasts.

The expected credit loss calculation for stage 3 distinguishes between transactions in homogeneous and non-homogenous portfolios, and purchased or originated credit-impaired transactions. For transactions that are in Stage 3 and in a homogeneous portfolio, a similar approach as for Stage 1 and 2 transactions is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal to 100 %.

Below the estimation techniques for the input factors are described in more detail.

The one-year PD for counterparties is derived from our internal PD model. The Bank assigns a PD to each relevant counterparty credit exposure for our exposure.

The counterparty ratings assigned are derived based on internally developed rating models which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a specific set of criteria as given for a certain customer. The set of criteria is generated from information sets relevant for the respective customer segments including general customer behaviour, financial and external data. The methods in use range from statistical scoring models to expert-based models taking into account the relevant available quantitative and qualitative information. Expert-based models are usually applied for counterparties in the exposure classes "Central governments and central banks", "Institutions" and "Corporates" with the exception of those "Corporates" segments. For the latter as well as for the retail segment statistical scoring or hybrid models combining both approaches are commonly used. Quantitative rating methodologies are developed based on applicable statistical modelling techniques, such as logistic regression.

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle (TTC) matrices, which are derived from a multi-year rating history. For the next two years, economic forecasts are available. These forecasts are used to transform the TTC matrices into point-in-time (PIT) rating migration matrices.

LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.

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The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

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IFRS 9 credit risk tables are presented below. *Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2020*

31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	-	-	-	-	-
Cash balances at central banks	872	-	-	-	872
<i>Investment grade</i>	872	-	-	-	872
Other demand deposits	627	-	-	-	627
<i>Investment grade</i>	627	-	-	-	627
Securities at fair value through other comprehensive income	34,929	-	-	-	34,929
<i>Investment grade</i>	34,929	-	-	-	34,929
Securities at amortized cost	229,366	-	-	-	229,366
<i>Investment grade</i>	229,366	-	-	-	229,366
Due from banks	294,640	-	-	-	294,640
<i>Investment grade</i>	294,640	-	-	-	294,640
Default grade	-	-	-	-	-
<i>Non-investment grade</i>	-	-	-	-	-
Retail	40,133	7,424	1,889	-	49,446
<i>incl.: gross carrying amount of client effected relief program from retail loan</i>	17,257	1,264	1,472	-	19,993
<i>Investment grade</i>	38,979	6,719	-	-	45,698
<i>Default grade</i>	-	-	1,889	-	1,889
<i>Non-investment grade</i>	1,154	705	-	-	1,859

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*Credit risk exposure - Gross carrying amount per asset type, and loss allowance –
31 December 2020 (continued)*

31 December 2020 (continued)	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Corporate	7	-	487	-	494
incl.: gross carrying amount of client ef- fected relief program from corporate loan	-	-	114	-	114
<i>Investment grade</i>	7	-	-	-	7
<i>Default grade</i>	-	-	487	-	487
<i>Non-investment grade</i>	-	-	-	-	-
Advances	834	-	11	-	845
<i>Investment grade</i>	834	-	-	-	834
<i>Default grade</i>	-	-	11	-	11
<i>Non-investment grade</i>	-	-	-	-	-
Total gross carrying amount	601,408	7,424	2,387	-	611,219
Loss allowance	123	448	390	-	961
Carrying amount	601,285	6,976	1,997	-	610,258

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*Credit risk exposure - Gross carrying amount per asset type, and loss allowance –
31 December 2019*

31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
<i>Cash on hand</i>	-	-	-	-	-
<i>Investment grade</i>	-	-	-	-	-
<i>Cash balances at central banks</i>	915	-	-	-	915
<i>Investment grade</i>	915	-	-	-	915
<i>Other demand deposits</i>	155	-	-	-	155
<i>Investment grade</i>	155	-	-	-	155
<i>Securities at fair value through other comprehensive income</i>	43,726	-	-	-	43,726
<i>Investment grade</i>	43,726	-	-	-	43,726
<i>Due from banks</i>	999	-	-	-	999
<i>Investment grade</i>	999	-	-	-	999
<i>Default grade</i>	234,396	-	-	-	234,396
<i>Non-investment grade</i>	234,396	-	-	-	234,396
<i>Retail</i>	49,373	6,650	2,784	-	58,807
<i>Investment grade</i>	46,995	5,755	-	-	52,750
<i>Default grade</i>	419	107	2,784	-	3,310
<i>Non-investment grade</i>	1,959	788	-	-	2,747

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Notes to the Separate Financial Statements

*Credit risk exposure - Gross carrying amount per asset type, and loss allowance –
31 December 2019*

31 December 2019 (continued)	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Corporate	9	-	-	-	9
<i>Investment grade</i>	9	-	-	-	9
<i>Default grade</i>	-	-	-	-	-
Non-investment grade	-	-	-	-	-
Local governments	1,303	-	12	-	1,315
<i>Investment grade</i>	1,303	-	-	-	1,303
<i>Default grade</i>	-	-	12	-	12
Non-investment grade	-	-	-	-	-
Total gross carrying amount	330,876	6,650	2,796	-	340,322
Loss allowance	25	405	572	-	1,002
Carrying amount	330,851	6,245	2,224	-	339,320

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Impairment

31 december 2020	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail loans	1,889	355	1,534
Corporate loans	487	24	463
Advances	11	11	-
Total credit-impaired assets	2,387	390	1,997

31 december 2020	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	333	152	485
Collective	123	116	238	477
Total	123	448	390	961

31 december 2019	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	270	107	377
Collective	25	135	465	625
Total	25	405	572	1,002

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Notes to the Separate Financial Statements
Impairment movement table 2020 (continued)

Asset type all	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2020	25	405	572	-	1,002
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(2)	14	-	-	12
Transfers from Stage 1 to Stage 3	-	-	6	-	6
Transfers from Stage 2 to Stage 1	1	(7)	-	-	(6)
Transfers from Stage 2 to Stage 3	-	(7)	37	-	30
Transfers from Stage 3 to Stage 1	-	-	(27)	-	(27)
Transfers from Stage 3 to Stage 2	-	1	(9)	-	(8)
New financial assets originated or purchased	1	-	-	-	1
Changes in PDs/LGDs/EADs	115	42	19	-	176
Modification of contractual cash flows of financial assets	-	-	(3)	-	(3)
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(17)	-	(205)	-	(222)
Impairment loss as at 31 December 2020	123	448	390	-	961

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Impairment movement table 2020 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2020	25	405	572	-	1,002
Due from banks	(1)	-	-	-	(1)
Changes in PDs/LGDs/EADs	(2)	-	-	-	(2)
New financial assets originated or purchased	1	-	-	-	(1)
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Retail	19	41	(131)	-	(71)
Transfers:					
Transfers from Stage 1 to Stage 2	(2)	14	-	-	12
Transfers from Stage 1 to Stage 3	-	-	6	-	6
Transfers from Stage 2 to Stage 1	1	(7)	-	-	(6)
Transfers from Stage 2 to Stage 3	-	(7)	37	-	30
Transfers from Stage 3 to Stage 1	-	-	(27)	-	(27)
Transfers from Stage 3 to Stage 2	-	1	(9)	-	(8)
Changes in PDs/LGDs/EADs	37	40	70	-	148
Modification of contractual cash flows of financial as-sets	-	-	(3)	-	(3)
Financial assets derecognised during the period other than write-offs	(17)	-	(205)	-	(222)

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Impairment movement table – 2020 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Lifetime Ex-pected Credit Loss (ECL)	Purchased or originated credit-impaired	
Corporate	-	2	(51)	-	(49)
Changes in PDs/LGDs/EADs	-	2	(51)	-	(49)
Modification of contractual cash flows of financial as-sets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Securities	80	-	-	-	80
Changes in PDs/LGDs/EADs	80	-	-	-	80
Impairment loss as at 31 December 2020	123	448	390	-	961

All figures in tables are in HUF million except otherwise noted
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Notes to the Separate Financial Statements
Impairment movement table – 2019

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Impairment as at 1 January 2019	88	460	2,538	-	3,086
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(3)	15	-	-	12
Transfers from Stage 1 to Stage 3	(2)	-	31	-	29
Transfers from Stage 2 to Stage 3	1	(10)	-	-	(9)
Transfers from Stage 3 to Stage 2	-	(14)	62	-	48
Transfers from Stage 2 to Stage 1	1	-	(57)	-	(56)
Transfers from Stage 3 to Stage 1	-	2	(16)	-	(14)
New financial assets originated or purchased	5	8	-	-	13
Changes in PDs/LGDs/EADs	-	(56)	(133)	-	(189)
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(65)	-	(1,853)	-	(1,918)
Impairment as at 31 December 2019	25	405	572	-	1,002

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Provision as at 1 January 2019	4	5	2	11
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	-	-	(1)	(1)
Transfers from Stage 1 to Stage 3	(3)	(4)	-	(7)
Other movements with no P&L impact				
<i>Financial assets derecognised during the period other than write-offs</i>	-	-	-	-
Provision as at 31 December 2019	1	1	1	3
Provision as at 1 January 2020	1	1	1	3
Movements with P&L impact				
Transfers:				
Transfers from Stage 2 to Stage 3	-	-	-	-
Changes in PDs/LGDs/EADs	(1)	-	-	(1)
Other movements with no P&L impact				
<i>Financial assets derecognised during the period other than write-offs</i>	-	-	(1)	(1)
Provision as at 31 December 2020	-	1	-	1

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

Exposure to credit risk on loan commitments and financial guarantees

31 December 2020	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	213	51	-	264
Total exposure to credit risk	213	51	-	264

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Retail	470	4	64	538
Total exposure to credit risk	470	4	64	538

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
30.4.3. Client effected by payment relief program

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay installments for all corporate and retail loan agreements from 19 March 2020.

The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing it Act 637/2020 (XII.22.), (second moratorium) entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021.

Unpaid interest accrued during the moratorium, together with the installment due for the remaining term, shall be paid in equal annual installments during the term of the moratorium after the expiration of the moratorium on payment. The monthly installment cannot increase due to unpaid interest and principal. The term is extended accordingly. Due to the moratorium, the customer may at any time decide whether or not to take advantage of the client effected by payment relief program.. The modification loss due to the program was calculated based on the expected cash flow, which ones are estimated under this legislation.

Takarék Mortgage Bank modified the impairment methodology in accordance with the legislation and recommendations after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Bank placed even more emphasis on this activity.

In the individual monitoring processes, a stricter procedure was applied, and new methodologies were introduced to identify companies in a deteriorating risk situation. In addition, the Bank has recalculated the parameters of the previously applied IFRS, taking into account the expected macroeconomic effects. This ensured that appropriate loss levels were established for the different credit risk categories.

See tables below on 30.4.3 notes too.

Financial assets modified during the period 31 December 2020	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	17,447	2,894	20,341
Loss allowance before modification	(27)	(225)	(252)
Net amortised cost before modification	17,420	2,669	20,089
Net modification gain/(loss) (change in gross carrying amount)	(190)	(44)	(234)
Impairment gain or loss	0	3	3
Net amortised cost after modification	17,230	2,628	19,858

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

30.4.4. Clients affected by the payment relief programs
Number of loans

31 december 2020	Number of loans	Outstanding balance	% of portfolio
Retail loans	5,736	19,750	40.63 %
Corporate loans	1	108	23.08 %
Total (retail and corporate loans)	5,737	19,858	40.88 %

30.4.5. Clients affected by the payment relief programs
Carrying amount of the loans

31 December 2020	Non-impaired loans		Impaired loans	Total
	Stage 1	Stage 2	Stage 3	
	17,257	1,264	1,472	19,993
Investment grade	16,351	695	-	17,046
Default grade		35	1,472	1,507
Non-Investment grade	905	534	-	1,439
Corporate loans	-	-	114	114
Default grade	-	-	114	114
Gross carrying amount	17,257	1,264	1,586	20,107
Allowances for credit losses	(26)	(16)	(207)	(249)
Carrying amount	17,231	1,248	1,379	19,858

In the tables above, the loans covered by the payment facilitation scheme include the actual recipients. Book value represents IFRS exposure on December 31, 2020.

30.4.6. Forborne loans

The Bank recognizes a receivable that contains concession as a restructured loan when the original contract was modified due to avoid the non-payment of the receivable in cases when the debtor was not able to fulfil the original contractual requirements on repaying the loan or would not be able to fulfil those requirements without those concessions made.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

Modification of contractual terms that meets the criteria of concession:

- a) modifications of contractual terms that qualify as concessions can be the followings:
 - postponement on repayment (on principal and on interest as well) for a transitional period (grace period)
 - instalment
 - modification of interest rate, repricing (in a form of discount)
 - capitalization of interest
 - change in currency
 - prolonging the maturity of the loan
 - rescheduling the repayments
 - reducing the amount of required collateral, replacing present collateral to another one, forfeiture of collateral (release of collateral)
 - determination of new contractual terms, termination a part of original contractual terms.
- b) a contract modification that qualifies as a concession may result in a supplementary agreement or a new contract between the parties or between a related party of the debtor and the original creditor that is a loan granted in order to repay the current outstanding balance of the loan (principal and interest) determined based on original contractual terms that was terminated or not yet terminated and also in order to avoid the increase in risk classification and to mitigate the loss in which cases the supplementary agreement or the new contracts that result in a new loan in the Bank's records are considered as restructured loans.

The Bank considers the following cases as non-performing restructuring:

- a) the modified contracted loan was considered to be non-performing loan before the modification or the loan would be considered to be non-performing without the modification,
- b) the contract contains partial or complete release of the debt,
- c) the debtor performed a principal or interest repayment on loans that would be considered as non-performing loans without concession around when a concession was made in case of another debt,
- d) modification of contractual terms when repayment involves the usage of collateral in cases of which the modification includes concession as well.

Change in monitoring/recovery of restructured loans:

- recovery period in case of restructured performing loans is 730 day (delay in repayment can be no longer than 30 days during this period), after successful recovery the deal can be treated under normal or intensified monitoring;
- recovery period in case of non-performing deals – deals with default flag or restructured – is 365 day (no delay in payment can occur during this period), after successful recovery the deal can be treated under intensive/preventive monitoring.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

An analysis of forborne loan portfolio by loan types

31 December 2020	Gross value	Impairment	Carrying amount
Individual loans	5,273	125	5,148
Corporate loans	345	17	328
Total	5,618	142	5,476

31 December 2019	Gross value	Impairment	Carrying amount
Individual loans	6,063	142	5,921
Corporate loans	306	35	271
Total	6,369	177	6,192

30.4.7. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by the Bank:

Real estate

The Takarék Mortgage Bank Plc. accepts as collateral mortgages, independent or separated liens established on such real estate that is registered in Hungary and have long live stable value. Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan. Collateral Management establish the value of credit collateral conservatively.

State guarantee and GHG Ltd. or AVGHA guarantee

All instances of State guarantee and other guarantee accepted by the Banks involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions.

Bail

Deposit can take the form of cash, bank deposit or securities.

Other

In addition to the above the Banks also accept assigned claims, lien on claims.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The table below shows the structure of the collaterals:

	31 December 2020	31 December 2019
Mortgage	1,269,803	719,055
Bail	12	12
Guarantee	2,881	14,158
Other collaterals	-	-
Total	1,272,696	733,225

The collaterals are related to the loans fully. The mortgage collaterals that are related to own lending are recognised at collateral value (discounted market value) by the Bank, the other collaterals are recognised at its own value (for example in case of assignment at the amount of the assignment). The Other collaterals category includes the value of the insurances.

The table below shows the maximum credit risk exposure:

	31 December 2020	31 December 2019
Other demand deposit	627	155
Financial assets at fair value through other comprehensive income	34,929	43,724
Debt securities at amortised cost	229,366	999
Individual loans	49,446	58,807
Corporate loans	494	9
Dues from banks	294,640	234,396
Advances	845	1,315
Off-balance sheet commitments	22,120	18,094
Total gross credit risk exposure	632,467	357,499

30.5. Market risk

Takarék Mortgage Bank Plc. maintains the maturity-, interest rate- and foreign exchange rate risk at low level derived from the asset, liability and off balance sheet commitments.

30.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assess interest rate risk on a continuous basis with the help of Gap-analysis, VaR calculations and sensitivity analysis. Interest rate risk is managed through mortgage bond issues and interest rate swaps, taking into account the breakdown of the loan portfolio by interest rate.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Interest rate risk exposure – sensitivity analysis (figures in HUF million)

	Sensitivity of interest income 2020	Sensitivity of interest income 2019	Sensitivity of interest income 31.12.2020 +10 bp	Sensitivity of interest income 31.12.2020 +25 bp
HUF	(1)	(11)	(7)	(17)
EUR	-	1	-	-
Other	-	-	-	-

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.

Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2020 net interest income would decrease by HUF 1 million in case of HUF. The effect of other foreign currency is not significant.

30.6.1. Exchange rate risk management

The business policy of the Mortgage Bank is to keep exchange rate risk at a low level.

The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

FX risk (in the case of 1% increase in exchange rate) HUF thousand

FX	Effect on earning before income tax (31 December 2020)	Effect on capital (31 December 2020)	Effect on earning before income tax (31 December 2019)	Effect on capital (31 December 2019)
EUR	80	80	(850)	(850)
USD	-	-	-	-
CHF	120	120	(110)	(110)
Other	-	-	-	-

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could increase with HUF 80 thousand, in case of CHF items it could increase with HUF 120 thousand. The effect of other foreign currency is not significant.

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Notes to the Separate Financial Statements

Separate FX financial position of the bank in terms of main currencies:

31 December 2020	HUF	EUR	CHF	Other	Total
Total assets	605,142	6,614	385	-	612,141
Total liabilities	(538,544)	(6,539)	(374)	-	(545,457)
Equity	(66,684)	-	-	-	(66,684)
Off-balance sheet items	(12,961)	(9,159)	-	-	(22,120)
Position	(13,047)	(9,084)	11	-	(22,120)

31 December 2019	HUF	EUR	CHF	Other	Total
Total assets	332,404	10,045	448	-	342,897
Total liabilities	(269,597)	(7,798)	(459)	-	(277,854)
Equity	(65,043)	-	-	-	(65,043)
Off-balance sheet items	(10,445)	(7,649)	-	-	(18,094)
Position	(12,681)	(5,402)	(11)	-	(18,094)

30.7. Liquidity and maturity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by coordinating the maturity of receivables and payables. At the same time, the Bank applies maturity transformation regulated by limits in order to improve profitability while maintaining solvency at all times. The Banks regularly review prepayments by clients prior to term and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares their liquidity plans and financing position based on different scenarios, also including effects coming from stress tests. The Bank maintains a high level of liquid asset portfolio consisting of mainly government securities and deposits with MTB.

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2020	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	1,259	-	-	-	-	1,259
Loans received	-	230	-	212,759			212,989
Issued debt securities	-	-	-	181,753	63,472	77,326	322,551
<i>from this: Mortgage bonds</i>	-	-	-	181,753	63,472	77,326	322,551
Other financial liabilities	895	548	38	38	-	-	1,519
Total banking liabilities	895	2,037	38	394,550	63,472	77,326	538,318

31 December 2019	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Due to banks	-	3,698	12	-	-	-	3,710
Issued debt securities	-	5,219	30,069	196,436	34,205	-	265,929
<i>from this: Mortgage bonds</i>	-	5,219	30,069	196,436	34,205	-	265,929
<i>from this: Bonds</i>	-	-	-	-	-	-	-
Other financial liabilities	180	6	21	49	-	-	256
Total banking liabilities	180	8,923	30,102	196,485	34,205	-	269,895

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Maturity analysis of assets and liabilities as of 31 December 2020

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	1,499	-	1,499
Financial assets held for trading	103	-	103
Financial assets at fair value through other comprehensive income	8,011	26,878	34,889
Financial assets at amortised cost	36,245	537,635	573,880
Derivatives – Hedge accounting	926	-	926
Tangible assets	-	125	125
Intangible assets	-	208	208
Tax assets	-	348	348
Other assets	144	19	163
Total assets	46,928	565,213	612,141
Liabilities			
Financial liabilities held for trading	88	-	88
Financial liabilities designated at fair value through profit or loss	-	6,484	6,484
Financial liabilities measured at amortised cost	2,970	535,348	538,318
Derivatives – Hedge accounting	284	-	284
Provisions	16	100	116
Tax liabilities	4	-	4
Other liabilities	163	-	163
Total liabilities	3,525	541,932	545,457

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Maturity analysis of assets and liabilities as of 31 December 2019

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	1,070	-	1,070
Financial assets held for trading	175	-	175
Financial assets at fair value through other comprehensive income	-	43,734	43,734
Financial assets at amortised cost	46,298	248,228	294,526
Derivatives – Hedge accounting	2,676	-	2,676
Tangible assets	-	157	157
Intangible assets	-	241	241
Tax assets	-	-	-
Other assets	318	-	318
Total assets	50,537	292,360	342,897
Liabilities			
Financial liabilities held for trading	136	-	136
Financial liabilities designated at fair value through profit or loss	-	6,552	6,552
Financial liabilities measured at amortised cost	39,205	230,690	269,895
Derivatives – Hedge accounting	288	-	288
Provisions	9	500	509
Tax liabilities	-	93	93
Other liabilities	381	-	381
Total liabilities	40,019	237,835	277,854

30.8. Management of operational

Operational risk is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Bank through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.

The Bank performed the oprisk self-assessment referring to the key activities and determined incidences that are unfrequent, but in case of occurrence inflict heavy losses, which effects are measured by scenario analysis.

In accordance with the supervisory expectations the Bank are compiled an inventory of the models used to assess model risks and a product inventory to identify the risks inherent in the products.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**30.9. Treatment of risk concentration**

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate.

31. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

On the capital adequacy of the members of the integration the MTB Ltd publishes the audited financial statements in the disclosure document of the business year.

32. RELATED PARTY TRANSACTION

For the purpose of the financial statements, Magyar Bank Holding Ltd. identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10%. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions.

The list of the related parties, - including the subsidiaries, associates and other shares of the Takarek Mortgage Bank Plc. - as at 31 December 2020 is the following. They are presented from the perspective of **the main parent company, Magyar Bankholding Ltd** and MTB Ltd.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

Company	Classification	Core business
Magyar Bankholding Zrt.	Main Parent company	Financial holding company
MTB Magyar Takarékszövetkezeti Bank Zrt.	Parent company	Other monetary intermediation
Takarékbank Zrt.	Subsidiary	Other monetary intermediation
MA-TAK-EL Zrt.	Subsidiary	Complex administrative service
Takarék Lízing Zrt.	Subsidiary	Other lending
Takarék Ingatlan Zrt.	Subsidiary	Estate agent service
Takarék Invest Befektetési és Ingatlankezelő Kft.	Subsidiary	Property management
Central European Credit d.d.	Subsidiary	Other financial intermediation
TIFOR TakaréK Ingatlanforgalmazó Zrt.	Subsidiary	Sale of properties
TIHASZ TakaréK Ingatlanhasznosító Zrt.	Subsidiary	Renting and operating of real estate
Takarék Faktorház Zrt.	Subsidiary	Other lending
Takarék Központi Követelés Kezelő Zrt.	Subsidiary	Other financial intermediation
Takarékszövetkezeti Informatikai Kft.	Subsidiary	IT system operation
TKK Ingatlan Kft.	Subsidiary	Sale of properties
TAK-INVEST Informatikai és Szolgáltató Zrt.	Subsidiary	IT service provider
TKK Csoport Ingatlankezelő Kft.	Subsidiary	Sale of properties
TKK TakaréK Követelésbehajtó Zrt.	Subsidiary	Debt collection
DBH Investment Zrt.	Subsidiary	Other financial intermediation
Takarék Zártkörű Befektetési Alap	Subsidiary	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Subsidiary	Investment fund
OPUS TM1 Ingatlan Befektetési Alap	Subsidiary	Investment fund
Takarék Kockázati Tőkealap	Associate	Investment fund
MPT Security Zrt.	Associate	Security service
Takarékinfo Központi Adatfeldolgozó Zrt.	Associate	Data services, web hosting services
HUN Bankbiztosítás Kft.	Associate	Insurance brokerage
Budapest Bank Zrt.	Subsidiary	Other monetary intermediation
MKB Bank Nyrt.	Subsidiary	Other monetary intermediation
MKB Üzemeltetési Kft.	Subsidiary	Renting and operating of real estate
Euro – Immat Üzemeltetési Kft.	Subsidiary	Renting of intangible assets
MKB Digital Szolgáltató Zrt.	Subsidiary	IT system operation
MKB-Euroleasing Autólízing Zrt.	Subsidiary	Financial leasing
MKB Bank MRP Szervezet	Subsidiary	Other financial services
Retail Prod Zrt.	Subsidiary	Other lending
Budapest Eszközfinanszírozó Zrt.	Subsidiary	Renting of tangible assets
Budapest Lízing Zrt.	Subsidiary	Financial leasing
Budapest Alapkezelő Zrt.	Subsidiary	Fund management

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

As at 31 December 2020 and 2019, the Bank did not have any loans to members of the Bank's management bodies.

	31 December 2020		31 December 2019	
	Head-count	The amount of emoluments	Head-count	The amount of emoluments
Members of Board of Directors	6	17	6	52
Members of Supervisory Board	6	16	6	17
Total payments	12	33	12	69

Details of transaction in 2020 and 2019 between the Bank and other related parties are disclosed on the next table.

31 December 2020	Parent	Subsidiaries	Associates	Key management
Due from banks	7,353	-	-	-
Loans and advances to customers at amortised cost	-	20,980	-	-
Other assets	-	1,147	-	-
Total assets	7,353	22,127	-	-
Due to banks	371	65	-	-
Deposits from customers	-	-	-	-
Other liabilities	11,384	57,131	-	-
Total liabilities	11,755	57,196	-	-
Interest income	26	2,727	-	-
Interest expense	(68)	(182)	-	-
Net interest income	(42)	2,545	-	-
Fee and commission income	-	60	-	-
Fee and commission expense	-	(22)	-	-
Net fee and commission income	-	38	-	-
Other operating income	180	458	-	-
Other operating expense	-	-	-	-
Operating income	180	458	-	-
Operating expense	(30)	(2)	(178)	(33)
Profit/loss on transactions with related parties	108	3,039	(178)	(33)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

31 December 2019*	Parent	Subsidiar- ies	Associates and joint ventures	Key man- agement
Due from banks	17,955	-	94,473	-
Loans and advances to customers at amortised cost	-	-	1,003	-
Other assets	1,593	-	92	-
Total assets	19,548	-	95,568	-
Due to banks	456	-	-	-
Deposits from customers	-	-	-	-
Other liabilities	6,763	-	14,063	-
Total liabilities	7,219	-	14,063	-
Interest income	235	1,362	149	-
Interest expense	(615)	(449)	(30)	-
Net interest income	(380)	913	119	-
Fee and commission income	1,484	168	71	-
Fee and commission expense	(0)	(3)	(243)	-
Net fee and commission income	1,484	165	(172)	-
Other operating income	1,381	-	899	-
Other operating expense	(790)	-	(599)	-
Operating income	591	-	300	-
Operating expense	(11)	-	(263)	(69)
Profit/loss on transactions with related parties	1,684	1,079	(16)	(69)

*For data as of December 31, 2019, the data were presented from the point of view of MTB as parent company, in accordance with the audited annual financial statements of 2019

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Related parties financial data preliminary, unaudited data

Related party	31 December 2020				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
MTB Magyar Takarékszövetkezeti Bank Zrt.	0%	1,470,568	1,438,897	31,671	3,533
Magyar Bankholding Zrt.	0%	747,796	2,006	745,790	(1,210)
Takarékbank Zrt.	0%	2,804,940	2,692,510	112,430	(10,716)
MA-TAK-EL Zrt.	0%	3,941	3,919	22	(116)
Takarék Lízing Zrt.	0%	52,703	52,041	662	161
Takarék Ingatlan Zrt.	0%	525	158	367	33
Takarék Invest Befektetési és Ingatlankezelő Kft.	0%	8,383	425	7,958	4,254
Central European Credit d.d.	0%	206	825	(619)	(7)
TIFOR TakaréK Ingatlanforgalmazó Zrt.	0%	6,295	385	5,911	(412)
TIHASZ TakaréK Ingatlanhasználó Zrt.	0%	25,981	134	25,847	(41)
Takarék Faktorház Zrt.	0%	6,594	5,953	641	56
Takarék Központi Követelés Kezelő Zrt.	0%	6,970	4,821	2,149	1,072
TakarékSzövetkezeti Informatikai Kft.	0%	1,948	167	1,781	(109)
TKK Ingatlan Kft.	0%	3	-	3	(3)
TAK-INVEST Informatikai és Szolgáltató Zrt.	0%	356	4	352	(10)
TKK Csoport Ingatlankezelő Kft.	0%	0	-	0	(3)

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
Related parties financial data preliminary continuing, unaudited data

Related party	31 December 2020				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
TKK Takarék Követelésbehajtó Zrt.	0%	114	264	(150)	780
DBH Investment Zrt.	0%	455	245	210	29
Takarék Zártkörű Befektetési Alap	0%	13,697	879	12,818	(4)
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	0%	6,876	1	6,875	(42)
OPUS TM1 Ingatlan Befektetési Alap	0%	2,104	51	2,054	(75)
Takarék Kockázati Tőkealap	0%	7,602	134	7,468	(177)
MPT Securty Zrt.	0%	4,744	1,425	3,318	76
Takarékinfo Központi Adatfeldolgozó Zrt.	0%	25,493	23,775	1,718	(420)
HUN Bankbiztosítás Kft.	0%	59	47	13	(123)
Budapest Bank Zrt.	0%	2,004,071	1,840,829	163,241	4,341
MKB Bank Nyrt.	0%	2,589,227	2,380,374	208,853	8,551
MKB Üzemeltetési Kft.	0%	35,924	1,898	34,025	290
Euro - Immat Üzemeltetési Kft.	0%	5,660	961	4,699	27
MKB Digital Szolgáltató Zrt.	0%	1,334	679	655	82
MKB- Euroleasing Autólízing Zrt.	0%	188,810	183,012	5,798	1,588
MKB Bank MRP Szervezet	0%	2,400	22	2,378	-
Retail Prod Zrt.	0%	756	30	726	49
Budapest Eszközfinanszírozó Zrt.	0%	5,756	3,616	2,140	(425)
Budapest Lízing Zrt.	0%	123,660	116,254	7,406	1,697
Budapest Alapkezelő Zrt.	0%	2,971	357	2,614	2,686

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
33. NET GAINS

The allocation of operating income to financial instrument categories excluding gains from foreign exchange transactions:

1 January 2020 – 31 December 2020	Financial assets and li- abilities held for sale	Financial assets and li- abilities designated at fair value through profit or loss	Financial assets and li- abilities at fair value through other compre- hensive income	Financial assets and li- abilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	224	-	504	10,033	685	3	-	11,449
Interest expenses	(222)	(271)	-	(7,413)	(318)	(13)	-	(8,237)
NET INTEREST INCOME	2	(271)	504	2,620	367	(10)	-	3,212
Fee and commission income	-	-	-	-	-	688	-	688
Fee and commission expenses	-	-	-	-	-	(521)	-	(521)
NET FEE AND COMMISSION INCOME	-	-	-	-	-	167	-	167
DIVIDEND INCOME*	-	-	-	-	-	-	-	-
Gains or (losses) on derecognition of finan- cial assets and liabilities not measured at fair value through profit or loss	-	-	611	(119)	-	-	-	492
Gains on financial assets and liabilities held for trading, net	672	-	-	-	-	-	-	672
Gains on financial assets and liabilities des- ignated at fair value through profit or loss	-	290	-	-	-	-	-	290
(Losses) from hedge accounting, net	-	-	-	-	(878)	-	-	(878)
Gains on derecognition of non-financial as- sets	-	-	-	-	-	-	157	157
Other operating income	-	-	-	-	-	-	530	530
Other operating expense	-	-	-	-	-	-	(16)	(16)
OPERATING INCOME	674	19	1,115	2,501	(511)	157	671	4,626

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

1 January 2019 – 31 December 2019	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	630	-	547	7,963	1,119	-	2	10 261
Interest expenses	(352)	(271)	-	(6,699)	(375)	(1)	-	(7,698)
NET INTEREST INCOME	278	(271)	547	1,264	744	(1)	2	2,563
Fee and commission income	-	-	-	-	-	591	-	591
Fee and commission expenses	-	-	-	-	-	(436)	-	(436)
NET FEE AND COMMISSION INCOME	-	-	-	-	-	155	-	155
DIVIDEND INCOME	-	-	-	-	-	-	-	0
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	588	(165)	-	-	-	423
Gains on financial assets and liabilities held for trading, net	2,319	-	-	-	-	-	-	2,319
Gains on financial assets and liabilities designated at fair value through profit or loss	-	147	-	-	-	-	-	147
(Losses) from hedge accounting, net	-	-	-	-	(913)	-	-	(913)
Gains on derecognition of non-financial assets	-	-	-	-	-	-	41	41
Other operating income	-	-	-	-	-	-	787	787
Other operating expense	-	-	-	-	-	-	(8)	(8)
OPERATING INCOME	2,597	(124)	1,135	1,099	(169)	154	822	5,514

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements
33.1. Equity correlation table

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the Notes for the reporting date by the Bank.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2019:

31 December 2019	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	10,849	-	27,926	-	24,335	-	-	(207)	2,140	65,043
Accumulated other comprehensive income	-	-	-	-	(992)	992	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	927	(927)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	10,849	-	27,926	927	22,209	992	207	(207)	2,140	65,043

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2020:

31 December 2020	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	10,849	-	27,926	-	25,743	-	-	(207)	2,373	66,684
Accumulated other comprehensive income	-	-	-	-	(260)	260	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	1,164	(1,164)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	10,849	-	27,926	1,164	24,112	260	207	(207)	2,373	66,684

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

Reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU:

	31 December 2020	31 December 2019
Share capital in accordance with IFRS adopted by EU	10,849	10,849
Share capital registered on the Registry Court	10,849	10,849
<i>Difference</i>	-	-

Untied retained earnings available for the payment of dividends are as follows:

	31 December 2020	31 December 2019
Retained earnings and other reserves	25,743	24,335
Unused portion of reserve for developments	-	-
Other capital reserve	-	-
Accumulated other comprehensive income	260	992
Repurchased treasury shares (Tied-up reserve)	(207)	(207)
General reserve	(1,164)	(927)
Net profit for the year	2,373	2,140
<i>Untied retained earnings available for the payment of di-vidends</i>	27,005	26,333

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements**34. POST BALANCE SHEET EVENTS**

As the majority shareholder of Takarék Mortgage Bank, MTB Ltd., made a mandatory public purchase offer for all shares issued by Takarék Mortgage Bank on 30 December 2020. The deadline for acceptance of the offer expired on February 17, 2021, and during this time the Bank's shareholders validly offer the following number of shares for purchase:

- 2,103,165 pieces of the series 'A' ordinary shares with a nominal value of HUF 100 each,
- 0 (zero) pieces of the series 'B' preference shares with a nominal value of HUF 100 each, and
- 0 (zero), each series 'C' ordinary share with a nominal value of HUF 1,000.

MTB Ltd. accepts the offered shares and classifies mandatory public purchase offer as successful. If case of all preconditions specified in the offer are met, after the transfer of the offered shares, the share of MTB Ltd. in Takarék Mortgage Bank increased from 86.2 % to 88.14 %, and the combined share of MTB Ltd. and the persons acting in consultation with it, increased from 94.82 % to 96.76 %.

Impact on the Bank of MNB's executive circular issued on January 21, 2021 on the application of IFRS9 standards

The main aim of the circular by MNB was to recommend uniform treatment of clients participating in the repayment moratorium among banks.

In the case of those clients that already participate in the moratorium for a period longer than nine months, MNB expects banks to examine whether the financial standing and the repayment ability of these clients can still be considered stable despite the ongoing participation in the moratorium. Should available data be not supportive of this, MNB expects banks to put the underlying transactions into restructured status and classify them as Stage2 category. Along the lines of the circular the Bank introduced the following measures:

- it identified the customer base that participated in the moratorium for a period longer than nine months;
- it modified the rules of monitoring the credit portfolio (introduced in 2020 for the period of the moratorium) in order to be able to point out transactions that should be put into restructured status;
- it specified which clients and transactions should also be reclassified as Stage2 category;
- it set March 31, 2021 as the deadline for these reclassifications;
- it committed itself to repeat the monitoring of the portfolio and the necessary reclassifications each month until the moratorium is in effect;
- it monitors the recovery process of clients and transactions on a monthly basis in line with the MNB's expectations.

With respect to Takarék Group as a whole, the customer base, which participated in the moratorium for at least nine months accounts for 40% of the entire household and corporate exposure. Upon processing the data on clients' financial situation, the extent of exposures to be put into restructured status stabilized at 6 per cent, whereas the share of exposures to be reclassified as Stage2 on March 31, 2021 due to the application of the central bank's executive circular stands at 2.7%. In the first quarter of 2021 the Bank also harmonized its methodology for monitoring the portfolio subject to the repayment moratorium to adhere to the principles for the selection of restructured and latent Stage2 transactions as recommended by the MNB.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

Notes to the Separate Financial Statements

For 2020 the Bank made no significant changes to the volume of already recognized impairment loss as a result of the MNB's circular.

The Budapest Stock Exchange (BSE) published the new composition of the BUX and BUMIX baskets - valid from March 23, 2020 - on March 12, 2020. The CEO of the Budapest Stock Exchange Ltd. adopted the resolution 117/2020 and decided based on Point 3.3.6.1 a) the exclusion of the shares of the Company from the BUX basket and from the BUMIX basket.

On March 11, 2020, the Management Board of the Takarek Group approved the Pandemic Plan and the Amendment of the Business Continuity Policy, and the Pandemic Operational Staff (POT) was established. From this time the POT coordinates in close cooperation with the Management Board and other relevant departments the tasks of the TakaréK Group in relation to the coronavirus crisis. The POT continually formulates instructions and recommendations to all employees and about this send information to the meetings at appropriate intervals.

The management regularly monitors the impact of the crisis on equity and profit or loss and decides on appropriate actions which it also informs the National Bank of Hungary.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



PROPOSAL
FOR AGENDA ITEM NO. 1.2



THE REPORT OF THE BOARD OF
SUPERVISORS ON THE COMPANY'S 2020
SEPARATE FINANCIAL STATEMENTS
AND SEPARATE BUSINESS REPORT AS
DEFINED IN THE IFRS

The Board of Supervisors examined the business report of Takarékszövetkezet Jelzálogbank Nyilvánosan Működő Részvénytársaság (“the Company”) for the financial year 2020, as well as its Separate Financial Statement for the financial year 2020 conducted on the basis of the International Financial Reporting Standards adopted by the European Union, including the separate comprehensive income statement, the separate comprehensive statement of other income, the separate statement of financial position, the separate statement of cash flow, the separate statement of changes in equity, the notes to the separate financial statements.

Based on the report of the Company's auditor, the Board of Supervisors concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

I.

The Board of Supervisors recommends the Board of Directors, acting on behalf of the General Meeting, to approve the Company's separate annual report for 31 December 2020 concluded in accordance with the International Accounting Standard (“IFRS”) with the **total balance sheet amount of HUF 612,141 million**

The Board of Supervisors recommends to the Board of Directors, acting on behalf of the General Meeting, that the Company shall place the profit of HUF 2,373 million for the year 2020 in profit reverses in the annual profit distribution and create a general reverse of HUF 237 million pursuant to legal rule.

The Board of Supervisors also initiates the acceptance of the business report for 2020.



PROPOSAL
FOR AGENDA ITEM NO. 1.3



THE REPORT OF THE AUDIT
COMMITTEE ON THE COMPANY'S 2020
SEPARATE FINANCIAL STATEMENTS
AND SEPARATE BUSINESS REPORT AS
DEFINED IN THE IFRS

The Audit Committee examined the business report of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (“the Company”) for the financial year 2020, as well as its Separate Financial Statement for the financial year 2020 conducted on the basis of the International Financial Reporting Standards adopted by the European Union, including the separate comprehensive income statement, the separate comprehensive statement of other income, the separate statement of financial position, the separate statement of cash flow, the separate statement of changes in equity, the notes to the separate financial statements.

Based on the report of the Company's auditor, the Audit Committee concludes that the Company has kept its books and records and has prepared its financial reports in accordance with the statutory requirements.

The Audit Committee supports the following recommendations of the Board of Supervisors:

I.

The Board of Supervisors recommends the Board of Directors, acting on behalf of the General Meeting, to approve the Company's separate annual report for 31 December 2020 concluded in accordance with the International Accounting Standard (“IFRS”) with the total balance sheet amount of HUF 612,141 million

The Board of Supervisors recommends to the Board of Directors, acting on behalf of the General Meeting, that the Company shall place the profit of HUF 2,373 million for the year 2020 in profit reverses in the annual profit distribution and create a general reverse of HUF 237 million pursuant to legal rule.

The Board of Supervisors also initiates the acceptance of the business report for 2020.

The Audit Committee recommends that the Board of Supervisors's report as detailed above be submitted to the Board of Directors acting on behalf of the General Meeting.



PROPOSAL
FOR AGENDA ITEM NO. 2



DECISION FOR SENIOR OFFICERS CONCERNING THE GRANTING OF INDEMNIFICATION
ESTABLISHING THE COMPLIANCE OF THEIR MANAGEMENT ACTIVITIES IN THE
BUSINESS YEAR OF 2020

Proposal:

Pursuant to Paragraph (1) of Section 3:117 of Act V of 2013 on the Civil Code (the “Civil Code”), the request of the senior officer may be granted by the General Meeting by issuing, simultaneously with the acceptance of the report, indemnification establishing the compliance of management activities in the previous business year.

As a result of the deteriorating epidemiological situation, the Government of Hungary repeatedly introduced a state of emergency in Government Decree 478/2020 (XI.3.) on the declaration of the state of emergency. During the state of emergency introduced as a result of the emergency situation – in accordance with the regulations of Section 3 (1) of Government Decree 502/2020. (XI.16.) concerning the repeated introduction of the special provisions related to the operation of partnerships and capital companies – the decision-making body of a legal person, including a college of delegates or a section meeting, may not be convened in a way requiring the physical presence of members, even if the meeting has already been convened when the regulation enters into force.

Section 9 of the Government Decree regulates the rules for the operation of a public limited company during the state of emergency. According to Section 9 (2), the management of the public company limited by shares is entitled to make decisions on all issues included in the published agenda – including the Amendment of the Articles of Association – as well as on the issues specified in Section 5 (1). The management’s decision on the issues included in the published agenda may derogate from the proposed resolutions. The resolutions, made within the scope of competence of the General Assembly pursuant to this paragraph, must be published as defined by Section 3:279 of the Civil Code.

The reasons for granting the exemption are summarized below:

In the course of the previous year, the Board of Directors has monitored, discussed the issues within its competence, has held regular meetings to make the decisions necessary for such issues, and has made out-of-meeting decisions. The report on the activities and achievements of TakarékJelzálogbank Nyrt. in the year 2019 had been prepared for the planned and convened ordinary General Meeting of 2020, which was not eventually held due to the state of emergency.

With respect to Section V of Act CXX of 2001 on the Capital Market and relevant legislation, the Board of Directors has always kept the shareholders informed of the business activities of TakarékJelzálogbank Nyrt.

The Board of Directors, with regard to and in accordance with the provisions of the law on credit institutions and financial undertakings, and the law on accounting, have created and prepared for submission to the General Meeting the annual report and consolidated annual report of TakarékJelzálogbank Nyrt.

The annual profit of TakarékJelzálogbank Nyrt. was 2.373 billion forints in the year 2020 with regard to individual IFRS, while the Bank’s individual total comprehensive income was shown to be 1.641 billion forints.

Based on International Financial Reporting Standards (“IFRS”), the total balance sheet of Takarék Jelzálogbank Nyrt. was 612,141 million forints at separate level on 31 December 2020.

The Jelzálogbank will perform only classic mortgage banking functions, i.e. issuing mortgage bonds, from the second quarter of 2018, and provide refinancing to the mortgage portfolios of the Takarék Group and external partners with the funds involved. The Takarék Jelzálogbank has a special banking role within the Takarék Group: it can involve the appropriate financing sources within the Group in the form of mortgage debenture and mortgage bonds from both domestic and foreign capital markets. In case of the latter, the involvement of foreign exchange funds can be also provided, if necessary.

Takarék Jelzálogbank focuses on cooperation with external partners regarding its strategy, thus attempts to provide a lucrative market alternative for credit institutions interested in refinancing that do not have their own mortgage credit institution.

The stock of refinancing loans increased by 32.3%, i.e. by HUF 70.1 billion to HUF 287.1 billion by 31 December 2020 compared to the previous year.

The MNB's measures, aimed at mitigating the negative money market and real economic consequences of the money market turbulences caused by the coronavirus pandemic, were the market conditions determining the business and financial operations, the balance sheet structure and profit and loss evolution of Takarék Jelzálogbank in 2020.

The MNB's new mortgage debenture purchase program (II) started with the same strategic parameters as the 2018 program and ended in November 2020. The total amount purchased under the program was HUF 273.8 billion, of which Takarék Jelzálogbank received HUF 102.3 billion.

On 16 March 2020, the MNB decided to restructure its monetary policy instruments, thus on 24 March 2020 the MNB, such as the ECB, announced the introduction of a new fixed-rate collateralized loan instrument (LTRO) (with 3-month, 6-month, 12-month, 3- and 5-year repayment terms), which provided loans at a fixed interest rate with unlimited liquidity. As a result, the banking system received a long-term liquidity of HUF 2,263 billion through the 3- and 5-year LTRO covered loan asset by the end of December. By the end of the year, the Jelzálogbank added 213 billion 3-year and 5-year low-priced central bank loans among its long-term sources due to its active participation in tenders. The securities portfolio also increased parallel, partly due to the use of LTRO resources.

The Board of Directors has performed its duties preserving the value of shares and emphasizing the prime importance of the interests of Takarék Jelzálogbank Nyrt., and thus it is justified that the Board of Directors – acting on behalf of the General Meeting to be held on 27 April, 2021 – evaluates the activities performed by senior officers in the business year of 2020, and, based on said evaluation, issues an indemnification establishing the compliance of the senior officers’ management activities in the business year of 2020.

If the indemnification is granted, Takarék Jelzálogbank Nyrt. may only make a claim for compensation against members of the Board of Directors for the violation of managerial obligations if the facts or data on which said indemnification is based prove to be incorrect or incomplete.

The facts and data on which the issuance of the indemnification may be based are provided in the following documents:

- semi-annual reports;
- annual reports;
- interim management statements;
- special reports;
- statements concerning 2020, relevant audit reports, Board of Supervisors's report;
- Responsible Corporate Governance Report.

The Board of Supervisors concurs with the proposal of the Board of Directors.

Proposed resolution:

The Company's Board of Directors, acting on behalf of the General Meeting, has evaluated the activities of the senior officers in the business year of 2020, and, based on said evaluation, has issued an indemnification establishing the compliance of their management activities in the business year of 2020.



PROPOSAL
FOR AGENDA ITEM 3



ELECTION AND DETERMINATION OF
THE REMUNERATION OF THE
COMPANY'S AUDITOR

Proposal:

Deloitte Könyvvizsgáló és Tanácsadó Kft. (hereinafter referred to as: Deloitte) has performed audit tasks for Takarékszövetkezet Bank Co. Plc. in the previous years.

During the review of the previous annual reports, Deloitte's professional cooperation has greatly contributed to the preparation of accounting and financial reports. The Deloitte Group also contributed to the review of the reports of the entire cooperative credit sector as a central auditor. In addition it is the auditor of MKB Group.

In the course of the aforementioned duties, Deloitte provided the appropriate expert team for the audit and other review work needed for the integration of the cooperative credit institutions.

The statutory compliance review required for the selection of the audit company and the auditor in charge has been performed, the result of which is presented below.

- Compliance with the condition laid down in Section 67/A of Act LXXV of 2007 on the integration of cooperative credit institutions and amendments to certain economic laws: ensured, the commission for auditing the annual reports does not exceed 8 consecutive business years.
- Compliance with the condition laid down in Article 17 of Regulation (EU) No. 537/2014: ensured, the commission did not exceed maximum 10 years set out for the auditing company and maximum 7 years for the auditor in charge.
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 260 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (additional report to the Audit Committee)
- Based on the statement of the auditor company, there are no exclusion conditions pursuant to Section 17/K, paragraph (6) of Act CXXXV of 2013 on the integration of cooperative credit institutions and amendments to certain economic laws.

Therefore, it can be stated that there are no exclusion conditions against the election.

We recommend Deloitte Könyvvizsgáló és Tanácsadó Kft. be elected as the auditor of Takarékszövetkezet Bank Co. Plc in 2021 as well.

In the event Deloitte is elected, the registered auditors in charge will be Molnár Attila, if he is prevented from performing their tasks: Mádi-Szabó Zoltán, and we recommend that the General Meeting of Takarékszövetkezet Bank Co. Plc accepts this.

The recommended auditing fee of Deloitte in 2021 is **HUF 16,5 million + VAT (HUF 20,955 million)**.

**DRAFT RESOLUTION
for agenda item 3**

The General Meeting of Takarékszövetkezet Bank Co. Plc ('Company') supports that the audit tasks of Takarékszövetkezet Bank Co. Plc. be performed by Deloitte Könyvvizsgáló és Tanácsadó Kft. for the 2021 business year for the fee of HUF 16,5 million + VAT (HUF 20,955 million).

The General Meeting of Takarékszövetkezet Bank Co. Plc supports that the auditor in charge will be Molnár Attila, if he is prevented from performing his tasks: Mádi-Szabó Zoltán.



PROPOSAL
FOR AGENDA ITEM NO. 4



APPROVING THE CORPORATE GOVERNANCE REPORT

Proposal:

Based on the Recommendations for Corporate Governance outlined by Budapesti Értéktőzsde (“BÉT”, Budapest Stock Exchange), stock exchange issuers are obliged to prepare a so called Corporate Governance Report, which shall be approved by the General Meeting in accordance with the provisions of Section 3:289 of Act V of 2013 of the Civil Code.

As a result of the deteriorating epidemiological situation, the Government of Hungary repeatedly introduced a state of emergency in Government Decree 478/2020 (XI.3.) on the declaration of the state of emergency. During the state of emergency introduced as a result of the emergency situation – in accordance with the regulations of Section 3 (1) of Government Decree 502/2020. (XI.16.) concerning the repeated introduction of the special provisions related to the operation of partnerships and capital companies – the decision-making body of a legal person, including a college of delegates or a section meeting, may not be convened in a way requiring the physical presence of members, even if the meeting has already been convened when the regulation enters into force.

Section 9 of the Government Decree regulates the rules for the operation of a public limited company during the state of emergency. According to Section 9 (2), the management of the public company limited by shares is entitled to make decisions on all issues included in the published agenda – including the Amendment of the Articles of Association – as well as on the issues specified in Section 5 (1). The management’s decision on the issues included in the published agenda may derogate from the proposed resolutions. The resolutions, made within the scope of competence of the General Assembly pursuant to this paragraph, must be published as defined by Section 3:279 of the Civil Code.

According to the BÉT’s guide, the recommendation is to be considered as a supplement to the Hungarian legal regulations (normally the Civil Code), primarily for public companies operating in Hungary listed on the BÉT. The recommendations proposes best practices. Adherence to and compliance with its provisions is recommended, but not mandatory for the listed companies.

Listed companies must declare their responsible corporate governance practices in two ways. In the first part, they shall report in an accurate, comprehensive and easy-to-understand way on their responsible corporate governance practices during the business year in question, including the corporate governance policy and a description of any special circumstances. In the second part, they shall report in accordance with the principle of “*comply and share*” on compliance with certain specific points of the recommendations and whether they apply the set out recommendations.

Stock exchange issuers shall make their statements and publish their reports on their corporate governance practices within 120 days of the relevant business year (by 29 April for companies with a business year corresponding to the calendar year).

This proposal recommends the adoption of the Corporate Governance Report of Takarékszövetkezet Nyilvánosan Működő Részvénytársaság (the “Company”) for the year 2020 with the attached content.

The Board of Supervisors agrees with the proposal of the Board of Directors.

Proposed resolution:

The Company's Board of Directors, acting on behalf of the General Meeting, approves the Company's Corporate Governance Report for the business year 2020 with the content of the written submission relevant for the agenda item.



A
Responsible Corporate Governance Report of TakaréK Mortgage Bank Co. Plc.

for

2020

27 April 2021

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1. Presentation of the operation of the Board of Directors, and the division of responsibilities and duties between the Board of Directors and the management

The Board of Directors is the legal representative and managing body of the Company, and it represents the Company against third parties, as well as before courts and other authorities, manages and controls the business activity and finances of the Company, and provides the conditions of successful operation.

The organisation and operation of the Board of Directors is governed by the Articles of Association and the Rules of Procedure of the Board of Directors. The Board of Directors has the authority to establish the Rules of Procedure of the Board of Directors. Both the Articles of Association and the Rules of Procedure of the Board of Directors are available on the official website of the Company (www.takarekizb.hu).

The Board of Directors consists of at minimum five and at maximum eleven members. In 2020, the Board of Directors consisted of 6 members. The members of the Board of Directors are elected by the general assembly from among the shareholders or other persons. In accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings (Credit Institutions Act) and the Articles of Association, in 2020, out of the members of the Board of Directors, the CEO of the Company and the Deputy CEO(s) had continuous employment relationships with the Company (internal Board members).

The members of the Board of Directors shall be liable towards the Company for any damage caused thereto by breaching the provisions of the law, the Articles of Association, the resolutions of the general assembly or their obligations in accordance with the rules of civil law. The body shall have joint and several liability for damage caused in this manner. If the damage was caused by a resolution of the Board of Directors, any member of the Board of Directors who did not participate in the passing of the resolution or voted against it – and notified the Supervisory Board regarding this in writing within fifteen days after the passing of the resolution – shall be exempted from liability.

The Board of Directors shall make its decisions objectively, having regard to the interests of all shareholders, and striving to be independent of the influence of the management and any given shareholder. The members of the Board of Directors, in their capacity as Board members, may not be given orders by the shareholders of the Company or their employer.

In 2020, the Board of Directors carried out its activities based on an annual work schedule. The Board of Directors holds meetings as frequently as necessary, but at least once every three months. The Board of Directors discusses matters conferred to its authority based on written proposals. It makes its decisions in the form of resolutions, based on the draft resolutions submitted by the proposing person. The proposals and the related draft resolutions are prepared by the management for the Board of Directors. The head of the organisation preparing the proposal and the Deputy CEO exercising professional supervision, or in the absence of such person, the CEO exercising professional supervision shall be responsible for the substantive soundness of the proposals. The members of the Board of Directors shall be notified regarding the time and date and agenda of the Board meetings 5 business prior to the meeting, and the written proposals shall also be sent to them together with this notice.

The Board of Directors has a quorum if at least half of the Board members is present at the meeting. The Board of Directors passes its resolutions via open ballot, with simple majority of votes (with the exception of the cases set out in the Rules of Procedure of the Board of Directors). No member of the Board of Directors personally involved in the matter discussed, in any way, may participate in the passing of the resolution. The chairman of the Board of Directors orders a secret ballot upon the request of any member of the Board of Directors.

In emergencies, the Board of Directors may also pass resolutions validly via phone, fax or other means, provided that the Company delivers the proposal requiring decision to the Board members in writing, at least by electronic

means, and more than half of the members execute their votes in the form of a private instrument with full evidencing force, and send such instrument to the registered seat of the Company within two days.

The chairman of the Supervisory Board or the Supervisory Board member appointed by the chairman of the Supervisory Board shall participate in the sessions of the Board of Directors as permanent invitee. The chairman of the Board of Directors may invite the auditor or asset controller of the Company or any other person, who may participate in a consultative capacity. The supervisor of the Central Bank of Hungary (the supervisory body is hereinafter referred to as: "Supervisory Authority", acting in its supervisory role on the system of financial intermediation) responsible for supervision of the Company, and the representatives of MTB Zrt and the Integration Organisation of Cooperative Credit Institutions were invited to all meetings of the Board of Directors.

The members of the Board of Directors elect a chairman from among themselves. The work of the Board of Directors is controlled by the Chairman. If the chairman is prevented from performing its tasks, the Board member designated by him/her shall be responsible for performing the chairman's tasks.

The scope of tasks and authority of the Board of Directors are set out in detail in the Articles of Association and the Rules of Procedure of the Board of Directors. The authority of the Board of Directors includes powers related to the strategy and business and financial activity of the Company, tasks and powers related to the operation and organisation of the Company, powers related to capital increase and own shares, powers related to the control of companies under joint supervision with the Company, company founding and investments, rights related to representation of the Company, and powers related to the operation of the Board of Directors.

In 2020, the senior management of the Company was composed of the following: CEO, Deputy CEO. Both were also internal members of the Board of Directors. The Board of Directors exercises the employer's rights over the members of the management via the chairman of the Board of Directors.

The CEO is an employee in employment relationship with the Company, and is the senior manager employee of the Company. The CEO shall perform the management and controlling of the Company's daily, operative functions within the scope of employment relationship, while the tasks related to his/her membership in the Board of Directors within the scope of a corporate law relationship. Accordingly, to the employment relationship of the Chief Executive Officer the Labour Code, while to his/her election to the Board of Directors and his/her Board membership the Credit Institutions Act and the rules of the Civil Code on service contracts applied and shall apply.

The Board of Directors and the CEO share the tasks as follows: The CEO shall manage and control the daily activity of the Company in compliance with the relevant laws and the Articles of Association, in accordance with the resolutions passed by the general assembly and the Board of Directors. The CEO shall be responsible for taking a decision in cases which do not fall within the exclusive competence of the general assembly or the Board of Directors. The CEO shall regularly inform the Board of Directors and – between the meetings – the chairman of the Board of Directors regarding the matters related to the operation of the Company. The aforementioned division of tasks does not affect the statutory liability of the Board of Directors and the members of the Board of Directors.

The CEO shall exercise the employer's rights over the employees of the Company, except with regard to the Deputy CEO. The division of tasks and powers of the CEO and the Deputy CEO within the organisation is set out in the by-laws of the Company, and the Board of Directors has the power to approve any amendment thereof that would result in significant organisational changes.

2. Members of the Board of Directors, the Supervisory Board and the management

2.1. Board of Directors

In 2020, the following persons were members of the Board of Directors of the Company:

External, independent members who do not have any other legal relationship with the Company:

VIDA József, chairman – Member of the Board of Directors since 30 November 2016, chairman of the Board of Directors since 5 December 2016

VIDA József is an economist who studied business management, as well as liquidation and bankruptcy law in several universities. Chairman-CEO of Takarékbank Zrt and the MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd., CEO of the Magyar Takarékszövetkezési és Vagyongazdálkodási Zrt., and Member of the Board of Directors.

His career in the banking sector started at Citibank Zrt. in 1999. In 2003, he switched from the position of Head of Department General of Magyar Takarékszövetkezési Bank (Bank of Hungarian Savings Co-operatives) to the position of Director of the Active Business Line of Szentgál és Vidéke Takarékszövetkezet (Szentgál and Surroundings Savings Co-operative), of which he became the Managing Director in 2006 and then the CEO.

In the past decade, he had a significant role in the integration efforts of savings co-operatives, and from 2007, he represented his region throughout two cycles in the senior representative body of savings co-operatives as a member of the presidency of the National Association of Savings-Cooperatives. He assisted in the work of Coop-Bank Academy and integration companies Takinvest Kft and TAKINFO Kft – leading operators in the field of IT – as a founder and an officer.

The largest merger of the savings co-operative sector took place under his leadership. This resulted in the fusion of ten savings co-operatives and the founding of B3 SAVINGS Co-operative on 1 September 2015. In 2014, he was awarded the Károlyi Sándor memorial plaque for his outstanding efforts in relation to the development of the integration of savings co-operatives. In July 2016, he was elected as the Chairman of the Board of Directors of the Integration Organisation of Cooperative Credit Institutions, which office he held until 8 December 2016. On 8 December 2016, the central bank of Takarékbank Group, the general assembly of the Magyar Takarékszövetkezési Bank Zrt. elected him as a member of the Board of Directors. Since 18 January 2017, he has been the Chairman of the Board of Directors and CEO of the bank.

VIDA József assumed a key role in the integration of savings cooperatives and in ensuring Takarékbank Group's competitiveness and long-term prosperity. Under his lead, the former FHB Group was integrated into Takarékbank Group. In 2017, twelve regional credit institutions were created by fusing fifty-two savings banks. The resulting dozen institutions were united in a single, countrywide, universal commercial bank, Takarékbank Zrt. in two steps in 2019.

In addition to the work he does for cooperatives, he is a farmer, breeding horses and keeping bees. He is holding senior positions in several professional organisations (Federation of the National Associations of Hungarian Dog Breeders, National Association of Leonberger Breeders, National Association of Hungarian Hovawart Breeders). In 2016, he graduated in Forestry and Wildlife Management. On top of all this, he writes cookbooks, shoots documentaries and participates in coach-and-four races.

SOLTÉSZ Gábor Gergő – internal member prior to 30 November 2016, external member after that

In 2003, he graduated from the Budapest University of Economic Sciences and Public Administration in Finance. Between 2003 and 2004, he worked for OTP Bank Nyrt. in the field of Credit Analysis and Monitoring, and then from 2004 to 2006, for Raiffeisen Bank Zrt. in the field of Project Financing and Loan Syndication. From March 2006, he was Deputy Head of Department of the Corporate and Structured Financing Directorate of FHB Bank Zrt. From 2008, he was Managing Director of the Corporate Directorate and, from 1 December 2010, the Deputy CEO of FHB Kereskedelmi Bank Zrt. He has been a member of the Board of Directors since 24 April 2013. He also held the office of CEO at FHB Bank Zrt, where he was also a member of the Board of Directors.

HEGEDŰS Éva – member of the Board of Directors since 18 October 2018

She graduated from the Budapest University of Economics. She started his professional career at a consulting company, from where she moved on to governmental institutions. As a deputy state secretary at the Ministry of Finance, and later at the Ministry of Economy, she managed the preparation of several laws that constitute the fundamentals of market economy in Hungary (Act on Credit Institutions, Act on Bankruptcy, Act on Electric Power), and she coordinated the establishment of several institutions (e.g. Hitelgarancia Zrt).

Beginning in 1997, she organised the restart of issue of mortgage deeds in Hungary as the Deputy CEO of the Földhitei és Jelzálogbank (Land Loan and Mortgage Bank). From 2002, she managed the Residential Business of OTP Bank, and she was the chairwoman of the OTP Lakástakarékpénztár (Building Savings Co-operative). Since 2010, she has been managing GRÁNIT Bank, which she has been a shareholder of since foundation.

She was responsible for developing the digital business model of GRÁNIT Bank, thanks to which, the bank – providing services mainly via electronic channels – developed many leading digital financial solutions.

She is a member of the Hungarian Banking Association and the Secretary General of the Hungarian Economic Society. In 2015, she was elected as “Banker of the year” in a secret ballot of bank managers, while in 2016, she was elected as the “Female manager of the year”, and she also holds several other Hungarian and international awards.

SASS Pál – He has been a member of the Board of Directors since 31 October 2019

He graduated from the Budapest University of Economic Sciences and Public Administration in Foreign Trade in 1990. Following graduation, he studied economics at the Yokohama National University within the framework of a Japanese scholarship. He started his career at the Department of International Interbank Relations of Iparbankház Rt, where he was dealing with international interbank relations and banking operations. From 1996, as Director of the Structured Financing Department of OTP Bank Nyrt, he oversaw the loan syndication and international lending transactions, as well as the banking group’s fundraising (bond issuance, borrowing) activities. From 2008, as Chief Consultant of OTP Hungaro-Projekt Kft, he dealt with corporate-, lending- and strategic consulting. From 2010, he was Managing Director of the Directorate General for Borrowing and Liquidity Management of the Hungarian Development Bank. From 2014, as Deputy CEO of Magyar Takarékszövetkezeti Bank Zrt, he headed a business division of the bank (Corporate Lending and Treasury). From 2016, he was Chief Business Advisor on lending, capital markets and strategic affairs of the of Magyar Takarékszövetkezeti Bank Zrt. Since 1990, he has attended and delivered speeches at numerous Hungarian and international conferences on the Hungarian banking system and economy, and has been teaching as a lecturer.

Internal members in employment relationship with the Company:

Dr. NAGY Gyula, CEO – since 26 April 2017

He graduated from the Foreign Trade specialty of the Budapest University of Economics in 1976, after which, in 1981 he also acquired specialist economist qualification, as well as a doctorate in economy. From 1977, worked as the Head of the Export Department of the Ganz Electricity Meter Plant, and later he worked as a salesman of Unicbank Rt and the Head of the Large Corporation Partner Relations Department of Citibank Hungary Rt. He managed the Corporate Business of BNP-Dresdner Bank Rt between 1991 and 1995, and of HVB Bank Hungary Rt between 1995 and 1999. He was a Deputy CEO and member of the Board of Directors of HVB Bank Hungary Rt between 1999 and 2001, and the CEO of Unicredit Jelzálogbank Zrt between 2001 and 2007. From October 2007, he has headed the Partner Refinancing and Integration Independent Department of FHB Nyrt, where he managed the refinancing activities of FHB Group. Since 26 April 2017, he has been the CEO of FHB Jelzálogbank Nyrt (currently TakaréK Mortgage Bank Co. Plc.). He is a master-level property expert and a member of the Research and Statistics Working Group of the European Mortgage Federation.

MÉSZÁROS Attila, Deputy CEO – external member of the Board of Directors between 30 November 2016 and 26 September 2018, internal member of the Board of Directors since 11 October 2018

He also has agricultural engineer qualification, qualification as engineer with specialty degree in economics, and two MBA qualifications. He worked at Credit-Lyonnais Magyarország Bank Zrt, and between 2001 and 2007, at the

Directorate of Large Corporation Relations of K&H Bank Zrt, and as the director of the Credit Risk Management Directorate of the same. Between September 2007 and December 2009, he managed the Restructuring Department of MKB Bank Zrt, and then he held the office of CEO and chairman of the Board of Directors of the Romanian debt collection subsidiary of MKB Bank Zrt. From November 2011, he worked as a financial restructuring consultant at Ernst&Young Tanácsadó Kft, and later in his own company. Between July 2014 and February 2015, he worked under the mandate of Pénzügyi Stabilitási és Felszámoló Nonprofit Kft as a supervisory commissioner during the winding-up of five credit institutions. Between 2015 and 2017, he managed the Subsidiary Management Department of the Integration Organisation of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Integrációs Szervezete), and he also held the office of chairman of the Board of Directors of the Bóly and Surroundings Savings Co-operative (Bóly és Vidéke Takarékszövetkezet), worked as the managing director of Takarékszövetkezeti Informatikai Kft, and was a member of the Board of Directors of the Common Capital Coverage Fund of Cooperative Credit Institutions (Szövetkezeti Hitelintézetek Tőkefedezeti Közös Alapja). He was an external member of the Board of Directors of TakaréK Mortgage Bank Co. Plc. from November 2016 until his resignation, and a member of the Supervisory Board of TakaréK Invest Kft and TakaréK Központi Követeléskezelő Zrt from 2017. He worked at MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd. as Managing Director for Risk Management from April 2017, and as Deputy CEO from November 2017, then he headed the Risk Management Division MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd. (and of TakaréKbank Zrt. from 1 May 2019).

2.2. Supervisory Board, Audit Committee

In 2020, the following persons were members of the Supervisory Board of the Company:

DR. HARMATH Zsolt chairman - as of 2 January 2017

He had obtained his undergraduate degree in 1999 in Economics, then qualified as a Chartered Accountant. He finished his postgraduate studies in Law in 2005.

From 1999 to 2010 he was employed by Magyar Posta Zrt. where he climbed the corporate ladder. He had started as a cost analyst / controller at the Budapest Directorate, then became Head of Department of Economics in 2001 and Deputy Director of Finance in 2003. From 2005 he had comprehensive responsibility for the financial module of the enterprise resource planning system at Magyar Posta.

He had been Director of the management control system, accounting and asset valuations at the Hungarian National Asset Management Inc. from 2010, then became Head of Finance in 2014, and as of 2019, the Deputy CEO responsible for Companies.

He holds top positions in several companies. For example, he is the Chairman of Büki Gyógyfürdő Zrt's Supervisory Board, and a member of Magyar Posta's Board of Directors, and Richter Gedeon Nyrt's Supervisory Board.

DR. KOVÁCS Mónika – Member of the Supervisory Board since 2 January 2017

Lawyer, she obtained her degree at the Faculty of Law of the University of Pécs. She started her career in 2005 at the Magyar Közlöny Lap- és Könyvkiadó Kft. as a lawyer. From 2009 she managed the gazette and the electronic publications business as Business Director. Her responsibility covered the legal matters as well as the management of the customer services and sales points, and the complete editorial board. Between 2005 and 2008 she worked as an external lecturer at the Department of Constitutional Law at the University of Pécs. She was a member of the Supervisory Board at Magyar Posta Zrt. and also worked as deputy state secretary at the Ministry of National Development.

PÓRFY György – Member of the Supervisory Board since 2 January 2017

He graduated at the University of Economics. He has been working since 1994 in banking, first he had started at Merkantil Bank, then filled management positions at BNP-Dresdner Bank Hungária Rt. and later at Kereskedelmi és Hitelbank Rt, then from 2002 he became Head of Department, then managing director at the Directorate for Large Enterprises at Unicredit Bank Hungary Zrt. He had been CEO of Unicredit Leasing Hungary Zrt. from 2010 and then became CEO of Unicredit Jelzálogbank Zrt. from 2012. From 2016, he was Managing Director of the

Corporate Business Line of MTB Zrt, and since 1 May 2019, he has been holding the same position in Takarékbank.

DR. REINIGER Balázs – Member of the Supervisory Board since 2 January 2017

Lawyer, Head of Office at Reiniger Law Firm. He was born in Budapest in 1977. He completed his legal studies in 2001 at the Faculty of Law of Eötvös Loránd University with excellent results. He studied law simultaneously with Hungarian then Finnish scholarship at the Faculty of Law of the University of Helsinki. He had spent his years of internship at international law firms, then after successfully taking the professional exam he founded his law firm in 2005 with his own name, which he has been managing since that time, representing domestic and international companies in economic and commercial cases and providing strategic consultation. Dr. REINIGER Balázs is a member of Budapest Bar Association's Presidency, the Hungarian Bar Association's Meeting of Delegates and Legislative Committee; he is the Vice President of the Arbitration Panel of the Hungarian Chamber of Agriculture and an Arbitrator of the Arbitration Panel assigned to the Hungarian Chamber of Industry and Commerce.

DR. GÖDÖR Éva – Member of the Supervisory Board since 1 August 2018

Lawyer, Head of Office at Dr. Gödör Law Firm. She obtained her legal degree at the Faculty of Law of Eötvös Loránd University in 2002 and passed her bar examination in 2006. During her trainee solicitor years, she dealt with civil- and criminal cases, later she turned her focus towards civil law. She has been working as a full-fledged solicitor since 2007. She founded her law firm in 2012, primarily supporting the activities of several players of the domestic financial sector and their subsidiaries from the very start. She participated in the implementation of asset transfers, re-organisations and mergers of financial institutions. Her specialisations include immovable properties, property investments, corporate law, financing, wind-up, support of the activities of financial institutions, fusions, acquisitions, due diligence, project support, and execution of procedures relating to nonprofit organizations. She has been a member of OPUS GLOBAL Nyrt's Supervisory Board since April 2018.

GÖRÖG Tibor – member of the Supervisory Board since 15 October 2018

He graduated at the Faculty of Economics of the University of Novi Sad. With more than 20 years of experience in domestic and international finance and economics he joined the savings cooperative industry in 2012. From 2015, he was Strategic Managing Director of 3A Takarékszövetkezet, and from 2018, Deputy CEO of TakaréK Kereskedelmi Bank Zrt. Until 3 June 2018, he was a member of the Supervisory Board of Magyar Takarékszövetkezeti Bank Zrt; subsequently, he was appointed Head of the Operations Division. As of 2019, he has been CEO of TakaréK Követelés Kezelő Zrt. In 2020, he became member of MTB Zrt's Board of Directors. He is also a member of the Supervisory Board of the Integration Organisation of Cooperative Credit Institutions, and a member of the Board of Directors of Magyar TakaréK Ellátó Zrt.

All of the above members of the Supervisory Board are independent, they do not have any other legal relationship with the Company. Accordingly, the general assembly of the Company elected DR. HARMATH Zsolt, PÓRFY György and GÖRÖG Tibor from the Supervisory Board to be members of the Audit Committee established in accordance with the Credit Institutions Act.

2.3. Company management

In 2020, the Company's management included the following members:

CEO:

DR. NAGY Gyula since 26 April 2017

Internal member of the Board of Directors. See introduction in Section 2.1.

Deputy CEO:

MÉSZÁROS Attila - since 11 October 2018

Internal member of the Board of Directors. See introduction in Section 2.1.

Detailed introduction of the professional career of the members of the Board of Directors, the Supervisory Board and the Management is available on the Company website (www.takarekjb.hu).

3. Information on the work performed by the Board of Directors and the Supervisory Board in 2020

3.1. Description of the work performed by the Board of Directors in 2020

3.1.1 Summary of the tasks executed by the Board of Directors

The Board of Directors had a total of 3 meetings in 2020, whereof 3 was held jointly with the Supervisory Board. On 57 occasions, resolutions were passed without a meeting. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The Board of Directors, apart from deciding on tasks set out in the work schedules, many times decided at the meetings and within the scope of written voting on matters not stated in the work schedule but within the competence of the board.

In most of the cases the reports, notices and other proposals compiled by the management or in cooperation of the manager of the field of practice concerned in the consideration of the reviewed topic were submitted in a written form to be on the agenda of the meetings. The Board of Directors discussed the topics on its agenda with due diligence, the members of the board supplemented and clarified the proposals on a regular basis with their professional comments and remarks, or phrased amendments where it was applicable.

Out of the topics discussed by the Board of Directors in 2020, the following should be highlighted:

- In 2020, the Board of Directors continued to pay particular attention to the implementation of the applicable integration policies.
- In 2020, the Board of Directors continued to pay particular attention to the implementation of measures targeting the establishment of a clear mortgage bank profile.
- During the 2020 meetings, carrying on with the practices of the previous years, the Board of Directors discussed the management report on the current business and financial situation of the Company as a permanent item of the agenda, and in doing so, they were able to monitor the operation and financial position of the Company in an ongoing manner. As a result of that the Board of Directors always had sufficient information during the year on the internal and external conditions impacting the operation of the Company, it was able to identify situations that may result in negative impacts, and respond to them with the necessary measures, and to support the work of the management with professional recommendations.
- In 2020, the Board of Directors continued to focus on the analysis of the Company's financial activities.
- In 2020, the Board of Directors continued with the regular, quarterly discussions on the Management's report on the Company's lending-, liquidity, market- and operational risks.
- The Board of Directors dealt also in 2020 with the topics on the implementation of the Remuneration policy.
- The Board of Directors found the management proposals focusing on the amendment of policies delegated to its competence to be sufficiently substantiated in every instance, and approved them while concluding a decision on a minor amendment.
- In 2020, the Board of Directors continued to pay attention to audits conducted at the Company by external authorities (such as the National Tax and Customs Administration and the Central Bank of Hungary), and to the

development and implementation of action plans associated with the conclusions of audits. None of the audits have concluded any non-compliance or objection against the work of the Board of Directors.

- The management provided information on a regular basis to the Board of Directors on the execution of earlier resolutions of the board, and on the internal instructions that enter into force on a group level and on a quarterly basis.

3.1.3. The Board of Directors' cooperation with other organisations

The Board of Directors sustains a cooperative and fair relationship with the Supervisory Board and the management. The CEO of the Company was present at every board meeting where it provided detailed information on current matters concerning the operation of the Company, and gave response to questions arising within the scope of the agenda. The chairman of the Supervisory Board was always invited to the meetings of the Board of Directors, where it was able to elaborate its opinion and recommendations at all times, therefore the shareholders' representation was always ensured during the management of the Company. Nevertheless, the consultations and exchange of ideas between the chairmen of the two bodies, the CEO and its deputy, were regular between the individual meetings.

3.2. Description of the work performed by the Supervisory Board in 2020

3.2.1 Summary of the tasks executed by the Supervisory Board

The Supervisory Board of the Company (hereinafter: "SB") operated in accordance with the approved work schedule in 2020. The work schedule included the individual tasks of the board, and the review of the audits executed by the internal audit team (hereinafter: "Internal Audit") of the Company. In 2020, the SB held 3 meetings jointly with the Board of Directors, and resolutions were passed without a meeting on 41 occasions. The organisation of the meetings as well as the proceeding regarding concluding a decision without a meeting were always compliant with the corporate policies, the board always had a quorum at these events.

The SB, further to the consideration of the regulations of the Hungarian Civil Code and the Credit Institutions Act, gained information on the business and financial position of the Company on an ongoing basis, and on the most important relevant questions concerning the operation, and on the meetings of the Board of Directors and the decisions concluded by them.

Further to that, the SB reviewed, discussed and evaluated other topics within the scope of its own initiative, such as:

- implementation of the tasks included in the action plans prepared in consideration of the internal audit reports of 2020,
- the concept of the Company's business plan for 2020,
- the quarterly reports of the Company on its lending, market, liquidity and operational risk, and
- quarterly reports of Compliance and Banking Security Directorate, including the completion of tasks laid down in the working schedule.

In 2020, the SB continued to pay attention to the audits conducted at the Company by the Supervisory Authority and other external authorities, and to the development and implementation of the action plan associated with the conclusions of the audits. None of the audits have concluded any non-compliance or objection against the work of the SB.

The SB thoroughly discussed the audits conducted by the Internal Audit team in different topics. These audits fundamentally targeted governance, management, administration (process), compliance and IT security. Accordingly, the audits included, among other things, the audit of issuing Mortgage Bonds and collateral records,

the implementation of the reviews required by the provisions of the EU regulation and directive on the management of lending and operational risks, and on liquidity compliance. They also included compliance audits in terms of the business and operation of the Company, and audits in consideration of the compliance with the resolutions of the Central Bank of Hungary and IHKSZ, the Central Organisation of Integrated Credit Institutions.

The Internal Audit department, in accordance with the regulations of the Credit Institutions Act, regularly informed the Supervisory Board and the Company's management about the results of conducted investigations and the implementation of action plans prepared as a response to the conclusions of the internal audits. The Internal Audit team provided information on the operation of the control functions, on the revealed deficiencies impacting the achievement of the objectives of the Company as well as its performance.

The SB paid particular attention to the Company to have a comprehensive and efficient control system. The internal audit system, earlier approved by the SB, was operational in 2020 at the level of the TakaréK banking group, in accordance with the relevant legal regulations, the Recommendations on Responsible Corporate Governance and the Authority's recommendation on operating inner lines of defence.

The Internal Audit team has its own medium term strategic objectives until the end of 2022, approved by the SB. An attachment of this is the risk map and the audit universe serving as the fundamental basis of the Internal Audit team's planning. Due to the changes in the working procedures of FHB Banking Group and considering the IIA standards – issued by the Institute of Internal Auditors ("IIA") – the continuous review and update of the approved operational and IT risk map is made by the approval of the Supervisory Board.

3.2.2. The operation of the Supervisory Board

The meetings' agenda mainly consisted of written reports and proposals. The board members had no formal division of labour. The members - according to their different professional competence and experience - represented different points of view during the evaluation of certain inquiries' results.

3.2.3. The Supervisory Board's cooperation with other organisations

The Supervisory Board was continuously, objectively and successfully working together with the Board of Directors, the management and the Company's auditor in 2020. The chairman of the SB participates in board meetings as a constant guest, where he had the opportunity to explain his point of view representing the SB.

The CEO and/or his deputy CEO participated in every board meeting, informed the board members appropriately and gave detailed answers to their questions.

Consultations and discussions between the Board of Directors, the chairman of SB and the CEO were provided even between meetings.

The auditor participated in the SB's meetings as a constant guest, where he supported the board's work with his professional observations if needed.

4. Description of the internal audit system and evaluation of its operation in 2020

In 2020, the internal audit system was implemented at banking group level in accordance with the relevant legal regulations, with Recommendations on Responsible Corporate Governance and with MNB's recommendations on operating inner lines of defence. The internal audit system contains elements of responsible internal governance, risk management, compliance function, as part of the internal audit system the control that is built in work procedures, management control and independent internal audit function.

The Company's management unites under responsible corporate governance the activities of the organisational units representing control function elements, informs about compliance with principles, expects reports and in its decisions certain control functions' statements and experiences are reflected.

Changes in the compliance function within the internal lines of defence:

In the Integration, compliance and banking security functions were centralised as of 1 June 2019 and since then, these tasks have been performed at a group level by the Compliance and Banking Security Directorate of MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd. based on a service level agreement (SLA); the organisational scope of group-level regulations have been extended to cover affiliated companies.

The above-mentioned SLA was entered into between the Compliance and Banking Security Directorate of MTB Zrt and TakaréK Mortgage Bank Co. Plc. on 06.06.2019.

The Compliance and Banking Security Directorate is divided into three professional fields:

- (1) Compliance Directorate (data protection, general compliance, customer protection, capital market compliance)
- 2) Defence Directorate (prevention of money laundering, conflicts of interest; these functions have been under the direct control of the Executive Director of the Directorate since September 2020)
- 3) Banking Security Directorate (physical security, information security, fraud prevention)

4.1. Summary of risk management principles

Takarék Mortgage Bank Co. Plc. is member of the Central Organization of Integrated Credit Institutions¹ (hereinafter: Integration Organisation) and the banking group led by the Magyar Takarékszövetkezeti Bank Zrt. (hereinafter: MTB Zrt or MTB).

The Integration Organisation and its members are jointly and severally liable for one another's obligations in accordance with the provisions of Act V of 2013 on the Civil Code. Joint and several liability covers any and all claims against the Integration Organisation and its members, irrespective of the date when such claims arise.²

Pursuant to the decision of the Central Bank of Hungary (Resolution No H-JÉ-I-209/2014), members of the Integration are exempt from the prudential requirements applicable to credit institutions and investment firms and from the individual application of the provisions of Part Two–Eight of Regulation No. 575/2013 of the European Parliament and of the Council (of 26 June 2013) on prudential requirements (CRR) and the amendment of Regulation No. 648/2012/EU. The group led by MTB Zrt. shall meet these requirements collectively, in a consolidated manner.

MTB Zrt, as the entity managing the Integration's business activities, controls credit institutions and companies that are consolidated in terms of meeting prudential requirements on a consolidated basis in order to achieve the strategic goals of the Integration. Accordingly, it ensures that the risk management principles, methods, risk assessment, measurement and control procedures are unified and harmonized within the Integration and meet the legal requirements. Integration members make their own risk management decisions independently in accordance with the Integration's principles, regulations and within the framework set for the Integration and its members.

The Integration's business goals are defined and reached by bearing the risk appetite in mind. The risk appetite needs to be harmonised with the financial resources which are available to cover possible losses. Risk management's main aim is to protect the Integration's financial power and good reputation and to contribute to business activities enhancing the shareholders' value.

¹ before 15.07.2020: Integration Organisation of Cooperative Credit Institutions

²Section 5/A (1) of Act CXXXV of 2013 on the integration of savings cooperatives and the amendments to economic related acts.

The boards and committees of TakaréK Mortgage Bank Co. Plc. discuss regularly the proposals concerning the review and modification of risk measurement and management methods, procedures and the reports presenting risk developments.

4.2. Risk management organisation

The risk management organisation of TakaréK Mortgage Bank Co. Plc. is separated from the business units and is supervised by the Deputy CEO.

4.3. Monitoring, feedback

The Company operates elements of inner lines of defence with regard to relevant legal regulations and supervisory recommendations in order to minimise risks. Accordingly beyond operating the risk management organisation

- a) the Compliance and Banking Security Directorate (hereinafter "Central Compliance Directorate") of MTB Zrt. ensures within TakaréK Group, thus also in the Company, compliance with principles and regulations of legal regulations, other professional practices that are not equivalent to legal regulations, authority's recommendations, guidelines and decrees and with inner rules (hereinafter: „compliance rules”), the prevention and control of their violation, and
- b) operates the internal audit system, the parts of which (management control, that is built in work procedures, management information system and independent internal audit function) spread on very institution and activity of the Company, are built in daily activities and can be traced; furthermore, they give regular feedback to the relevant management, governance level.
- a) The Compliance function is performed by MTB Zrt's Compliance and Banking Security Directorate under a service level agreement (SLA). Within the Compliance and Banking Security Directorate, the Compliance Directorate coordinates and ensures the fulfilment of compliance rules and the performance of compliance audits of members of the banking group.

The Compliance and Banking Security Directorate carries out its work based on an annual work schedule – also covering TakaréK Mortgage Bank Co. Plc. – approved by the executive body of MTB Zrt.

Aim of its activities is to support - on bank group level, in the Mortgage Bank as well - the organisations' prudent, reliable, efficient operation in compliance with legal regulations and to assist in the organisation's smooth and sufficient operation, to maintain trust in the institution, furthermore, to help group members avoiding legal sanctions (supervisory, competition law, compensation, etc.), great financial loss and reputational damage.

Prevention of money laundering and terrorist financing

The Anti-Money Laundering Department of the Defence Directorate of the Compliance and Banking Security Directorate carries out screening and analytical activities using customer data systems and external software, supporting the operation of a modern and effective anti-money laundering system by screening and examining customers and transactions on a risk basis. The Department's analyses and assessments identify and mitigate current and future customer, transaction and geographical risks, and thereby support risk management and business processes as well.

Consumer protection + Consumer Protection Officer

The Compliance Directorate's Consumer Protection Centre performs consumer protection related control functions and provides support to the Company, thereby helping TakaréK Mortgage Bank Co. Plc. to comply with consumer protection requirements. Details of the so-called Consumer Protection Officer (CPO) were reported to the Supervisory Authority in the framework of the group-level consumer protection function. Tasks related to this function are carried out by a staff member of the Compliance Directorate's Consumer Protection Centre.

Data protection + Data Protection Officer

The Compliance Directorate's Data Protection Centre performs group-level personal data protection and confidentiality tasks in accordance with the integration-level Privacy Policy and Confidentiality Policies issued by the Central Organization of Integration Credit Institutions. Some of the activities carried out at the integration level in 2020 also indirectly served to ensure TakaréK Mortgage Bank's compliance with the data protection regulations (e.g. publication of a general privacy notice). Specifically with regard to personal data protection activities related to mortgage loans, in 2020, a review of special mortgage banking activities began in order to supplement the information provided on data protection with specific information related to refinancing activities. In that context, personal consultations were conducted and the Data Protection Centre prepared a draft privacy notice related to the mortgage business line and sent it to TakaréK Mortgage Bank Co. Plc.

Conflict of interest

Tasks related to the handling of cases of conflict of interest are carried out by the Conflict of Interest Centre operating within the Compliance and Banking Security Directorate.

In accordance with the provisions of the Credit Institutions Act and the Group Conflict of Interest Policy, during their employment, employees may not engage in any conduct that would jeopardise TakaréK Mortgage Bank's legitimate economic interests.

This function also conducts conflict of interest investigations for candidates during the pre-employment process, for employees already having an employment contract and also for senior executives.

In addition to identifying and managing conflicts of interest involving employees, in order to avoid and prevent any potential conflicts of interest, this function conducts documented reviews during the sale of receivables or assets to determine whether the buyer has any interest in the debtor of the receivable to be sold. This function is also responsible for conducting conflict of interest investigations of intermediaries and of service providers to which activities are to be outsourced (before the conclusion of the relevant contracts).

Fraud prevention

Within the Compliance and Banking Security function, the Banking Security Directorate's Fraud Prevention Department is responsible for conducting investigations into internal and external abuses and crimes and for operating preventive monitoring systems. The field of expertise carries out human security activities for employees, and participates, among other things, in the performance of activities related to classified requests from authorities in accordance with applicable laws.

Based on the records of the field of expertise, there was no fraud incident or suspected fraud at TakaréK Mortgage Bank Co. Plc. in 2020.

Fulfilling the SLA contractual obligation, MTB, as Business Management Organisation of the Integration, through its quarterly reports informed the Board of Directors and the Supervisory Board of MTB about the activities of the Compliance and Banking Security Directorate relevant to the Company and the compliance related activities of the Company, as a member of the banking group.

ad b) Elements of control and management control built in work procedures were included in job descriptions and current procedures, the application principles were included in internal orders, organisational and operational regulations about control systems. The application principles were established in order to support the Company's efficient operation, reaching the Company's goals, the operation in compliance with legal regulations and the identification of possible risks with providing appropriate solutions to them.

An integral part of internal audit is the independent Internal audit organisation.

The independence of the Bank's internal audit organisation is ensured by the relevant regulations because according to these, the internal audit/internal auditor cannot be entitled to any other position than controller and cannot participate in bank procedures, decisions. The annual work schedule of Internal Audit is approved by the SB; further audit tasks can only be determined by the SB and the Head of Internal Audit, in agreement with the SB and the Company's CEO. The Supervisory Board is managing the internal audit organisation. The Head of Internal Audit has a reporting obligation to the SB. The direct technical management of internal audit activities is carried out at a banking group level, while methodical guidance through Integration Organisation.

The internal audit informed the Supervisory Board and the Company's management about the results of conducted investigations according to regulations of Credit Institutions Act. The Company's internal audit reports to the SB about its activity and informs about control function operations and revealed deficiencies. The Internal Audit is continuously monitoring and controlling the fulfilment of measures to eliminate the revealed deficiencies and regularly reports about it to the SB and the Company management. As the Company joined to the Integration Organisation, the Company's internal audit organisation had an obligation to data reporting towards MTB Zrt's internal audit, its base is to be applied obligatory by the Company and is part of MTB Zrt's internal audit regulation system for the Integration.

The Internal Audit's activity planning and its fulfilment is based on risk analysis, which analyses and examines the whole scale of business procedures. Also in 2020, Internal Audit had an internal audit strategy (with long-term audit plan), internal audit regulations, a manual to support internal audit tasks, a risk and examination result assessment methodology, regulations for the reporting and information system, all approved by the SB. Taking all these into account, it prepares the internal audit's annual work schedule which is afterwards approved by the SB. Taking its competency into account, it has access to all information and documents needed for the examinations.

Internal Audit's main tasks for 2020 were to support, through the conduct of general and thematic audits, the achievement of the Company's and Takarék Group's strategic goals, proper operation, the control system's operation, with particular regard to the performance and compliance of refinancing activities and the issuance of mortgage-backed securities, as well as to meet the expectations of the Company's managers and control bodies and carry out the tasks determined by the same, based on the experience gained from previous years' audits and adjusting the audits to the market environment. A key task and aim was to review compliance with the legal framework in practice and regularity, in order to reduce risks. A further aim was to ensure that audits promote the efficient functionality and operation of control systems to identify and eliminate any deficiencies in the field of meeting the requirements applicable to controls built in work procedures and to managerial controls, and to have feedback in a relatively short period of time in case of a new activity or work procedure in order to handle any deficiencies and risks efficiently.

4.4. The auditor's activities

The Company's auditor for the 2020 financial year was Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered seat: H-1068 Budapest, Dózsa György út 84/C.; registration number: 01-09-071057; chamber of commerce member no: 000083; registration number as a qualified financial institution at the Authority: T-000083/94; hereinafter: „Auditor”). On behalf of the Auditor, the audit tasks were carried out by MOLNÁR Gábor (mother's name: SZENDRŐDI Ildikó; place and date of birth: Budapest, 18.01.1980; place of residence: H-1031

Budapest, Muzsla u. 8; Chamber registration number: 007239; registration number with the Supervisory Authority: E007239; hereinafter: „natural person auditor”).

In 2020, Deloitte Könyvvizsgáló és Tanácsadó Kft. completed its assignment of performing the annual auditing tasks.

5. Presenting the Company's publication policy and insider trading policy

5.1. The Company's publication policy

The Company's Board of Directors attaches great significance amongst the requirements of responsible corporate governance to the transparency of Company operations because the Company's publication policy affects its reputation. Information that reflects efficient operations authentically has strategic importance if it enhances shareholders' and other concerned parties' trust towards the Company.

The Company has to fulfil every announcement and publication obligation in accordance with legal regulations, in a compulsory form until the deadline. The Company has further responsibility beside its publication obligation to prevent suspicion of information misuse against any employee and to provide the same information at the same time for every shareholder by announcing them organised. The management is obliged to ensure that the Company's publication practice is in accordance with the Board of Directors' principles.

The Company ensures that during information publication the information is accurate, obvious and understandable, that business secrets are appropriately protected, secret information is handled right, with appropriate and punctual timing of the publication no unauthorized person can access to the information so that misuse of this information can be prevented and market operators, investors and shareholders have the opportunity to be informed about events in connection with the Company in the frame of regulated and announced procedure at the same time.

The Company's publication policy gives priority to present following facts:

- the Company's main aims;
- the Company's policy in connection with its main activity, its business ethics, its partners, competitors and other concerned parties;
- result of the Company's activity, management;
- the risk factors that affect the Company's operation, management and the Company's risk management principles;
- its solvency margin, the amount of capital requirement,
- remuneration policy,
- the Company's managers, their professional experiences and principles for their remuneration;
- company management practice, structure of the company management system;
- ownership structure.

The principles of information publication in connection with the Company, approved by the Board of Directors are published on the official website of the Company. The internal audit examines the compliance of publication procedures.

5.2. The Company's insider trading policy

According to the regulation no 596/2014 of the European Parliament and of the Council on market abuse (hereinafter: MAR) the persons having managerial responsibilities within the Company, as issuer, and in certain cases as defined in MAR, the persons closely associated with them shall notify the Company and the Central Bank of Hungary immediately but within no later than three business days after the date of the transaction about transactions conducted on their own account relating to the Company's shares, debt instruments or derivatives or other financial instruments linked thereto (Article 19(1) of MAR). Article 19(7) of MAR and the related implementing

regulation define the transaction types with obligation to notify. The obligation to notify transactions applies to all transactions once a total amount of EUR 5,000 has been reached within a calendar year. The threshold shall be calculated adding without netting all above mentioned transactions (Article 19(8) of MAR).

The Company has a list of all persons discharging managerial responsibilities and persons closely associated with them according to Article 19(5) of MAR.

A person discharging managerial responsibilities within the Company shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report.

6. Methods of practicing shareholder rights and presenting the rules in connection with the organisation of the general assembly

6.1. Rules of practicing shareholder rights

The shareholder is entitled to practice his rights in possession of the owner certification defined by the legal regulations on shares and stocks. The shareholder does not need an owner certification to practice his rights if the entitlement is determined according to the regulations of the Articles of Association and the Capital Market Act by owner compliance. The shareholder needs an entry on the list of shareholders in order to practice his rights in connection with the general assembly.

The shareholder shall practice his rights personally, by a substitute (representative) or by a shareholder substitute defined by the Capital Market Act. According to the Articles of Association members of the Board of Directors and the Supervisory Board and the Company's managers can become representatives if they have clear written voting instructions for every proposal for a decision as substitutes by the party for whom they act. The Company's auditor and the Company's property inspector cannot become representatives. The shareholder may assign a substitute who represents him in the general assembly if he sends the form included in the Annex 1 or 2 of the Articles of Association filled out as a private deed to the Company by post or as an electronic document until the end of the work day before the day of the general assembly.

The shareholder is entitled to receive the percentage of the Company's results after tax according to accounting legislation that is ordered to be divided by the general assembly corresponding to the name value of his shares (dividends). Shareholders who are on the Company's shareholders list on the day that is determined by the general assembly's decision on dividend payment are entitled to receive dividends. Between the beginning date of dividend payment and the date of decision on dividend payment has to be a period of 20 working days.

If the Company is liquidated without a legal successor the shareholder is entitled to the amount of the liquidation value equivalent to his share.

The shareholder is entitled to participate in general assembly, ask for information and make remarks. The Board of Directors can refuse to provide information if it offends the Company's bank or business secrets. The shareholder has proposal and voting rights provided by his shares.

The shareholder has every minority rights ensured by the Civil Code.

6.2. Summary of general assembly organisation regulations

The supreme body of the Company is the general assembly. The Board of Directors has to call the general assembly at least 30 days before the beginning of the general assembly on places of publication determined by the

Articles of Association by a published announcement. Shareholders who notified the Company in writing about their claim, need to be informed in electronic form about the calling of the general assembly.

The key data of the annual and the consolidated annual financial statements of the Company, prepared in accordance with the Accounting Act, and of the reports of the Board of Directors and the Supervisory Board shall be disclosed to the shareholder twenty-one days before the date of the general assembly at the latest.

If the general assembly had been convened improperly, then the general assembly may be held and resolutions may be passed as well, however, exclusively in the presence of all shareholders entitled to vote, provided that they grant their consent to hold the general assembly.

The general assembly shall have a quorum if the shareholders representing more than half of the votes attached to the shares vested with voting rights are present. If the general assembly shall not have a quorum, at least ten and at most twenty-one days after the original date a second general assembly shall have a quorum in cases of the original agenda regardless the number of participants.

The general assembly can be suspended at most once by the chairman. If the general meeting is suspended, then it shall be continued within thirty days. In this case, the rules applicable to convening the general meeting and the election of the officers of the general meeting shall not be applied.

At the General Meeting, each class "A" ordinary share with a nominal value of HUF 100, i.e. Hundred Hungarian Forints, entitles to one vote; and each class "C" ordinary share with a nominal value of HUF 1,000, i.e. One Thousand Hungarian Forints, entitles to ten votes³. The Company like the general assembly performs ownership compliance determined by the Capital Market Act, stock market regulations and KELER Zrt's regulations which is dated in the period of time between the 7. and 3. stock market days before the general assembly. At the general assembly only those persons are entitled to the shareholder rights who owns the shares on the day of ownership compliance and whose name is included in the list of shareholders on the second work day before the beginning day of the general assembly at 18,00 (closure time of the list of shareholders).

Closure time of the list of shareholders does not limit the shareholder's rights in transferring his shares after the closure of the list of shareholders. The transfer of shares before the beginning day of the general assembly does not exclude the shareholder's right whose name is included in the list of shareholders to participate in the general assembly and practice the rights he is entitled to.

The general assembly makes a decision in cases determined by 12.6 point of the Articles of Association at least by a three-fourths majority of votes (qualified majority, 75% + 1 vote). In every other cases the simple majority of votes (50% + 1 vote) is needed for decision making. Abstentions are counted as against votes.

The detailed rules on organisation of the general assembly are included in 11-13. points of the Articles of Association.

³ Owners of shares of „B” series with dividend priority are not entitled to vote and have no voting rights in the general assembly. If the Company does not pay the dividends in a fiscal year, the shareholders of dividend priority share are entitled to voting rights equivalent with the voting rights that are connected to ordinary shares of „A” series and this right can be practiced without limitation until acceptance of the next fiscal year's report.

7. Remuneration Statement

7.1. Remuneration principles for the year 2020

The Remuneration Policy's review was approved by MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd's Supervisory Board by way of Supervisory Board decision No. FB-W-29/2020, by its Board of Directors by way of Board of Directors' decision No. IG-W-69/2020, by its Remuneration Committee by way of Remuneration Committee decision No. JavB-W-7/2020, by its Risk Management Committee by way of Risk Management Committee decision No. KkB-W-3/2020 in May 2020.

The Remuneration Policy entered into force on 11 May 2020 as a direct regulation No. 2/2020, but its provisions are applicable from 1 January 2020 to the entities covered by it.

Considering the Remuneration Policy, that it is about a directly applicable regulation, except for the annexes indicated with the letters "KM", no implementation was necessary for the Company. Implementation of the "KM" Annexes to the Remuneration Policy was approved by the Supervisory Board of TakaréK Mortgage Bank Co. Plc. by way of decision No. 28/2020. (06.15).

The essence of the Remuneration Policy can be summarized as follows:

The Remuneration Policy aims to

- establish a remuneration system in accordance with the medium- and long-term strategy of the TakaréK Group
- that is clear, transparent and can be accurately planned for every employee,
- in compliance with the proportionality principle set forth in Government Decree 131/2011. (VII. 18.).

Principle of the Remuneration Policy:

The basic principle of the Remuneration Policy is to harmonize the business goals of the members of the TakaréK Group and the personal goals of the employees on long term.

It is the fundamental aim of the TakaréK Group to encourage its employees to boost performance in addition to performing quality work and also to make employees interested in the long-term, successful and risk-aware operation that observes the interests of the Clients while the remuneration system is applied.

The Remuneration Policy needs to be in accordance with the goals, strategy and environment of the TakaréK Group. It should serve to motivate leaders and subordinates, the personal development of colleagues, and it should also support the success of the TakaréK Group while keeping in mind the interests of the Clients and the owners. The Remuneration Policy is in accordance with effective and successful risk management, the application of which it facilitates, and it does not encourage risk-taking exceeding risk limits.

The Remuneration Policy's scope of subjects are the following companies:

- MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd.,,
- TakaréKbank Zrt,
- TakaréK Mortgage Bank Co. Plc.,
- Direct and indirect investments of MTB collectively that are companies under consolidated supervision and/or the affiliated enterprises of MTB, TakaréKbank Zrt and TakaréK Mortgage Bank Co. Plc. Intermediaries, agents and partially third parties acting on behalf of TakaréKbank Zrt and MTB Magyar Bank of Hungarian Savings Cooperatives Co. Ltd., based on an agency agreement, taking into consideration the principle of proportionality, not overriding their own remuneration policy.

The personal scope of the Remuneration Policy:

The Remuneration Policy is applicable to all of the employees of the companies under the subjective scope.

The personal scope of the Remuneration Policy shall apply to every senior officer, supervisory board member and salaried employee of TakaréK Group as per Section 3:21 of the Civil Code, and, in addition to the general rules, it determines special rules in connection with highlighted persons as per Section 117. paragraph (2) of the Credit Institutions Act, annex 13 of the Collective Investments Act.

The personal scope of the Remuneration Policy shall also apply to every employee of the TakaréK Group who do not fall under the special regulations referenced in the previous clause.

The scope of the Remuneration Policy applies to every relevant person performing investment service activities as defined in the Investment Firms Act pursuant to the Decree No. 2017/565 (irrespective of whether they are an employee of the Group or a third party acting on behalf of an organization).

The temporal scope of the Remuneration Policy is indefinite, with the proviso that its provisions should be reviewed annually, or in the event of major changes in the legislation.

Publications regarding remunerations, data disclosure to the Central Bank of Hungary

The Remuneration Policy of the Integration Bank Group shall be available to all employees of the Member Bank. Member Bank shall be responsible for the publication thereof on its own electronic platform (Intranet) or any other platform customarily used by Member Bank.

The Group publishes its Remuneration Policy annually, and shall perform the data disclosure of the Central Bank of Hungary regarding basic- and performance-based remunerations in line with said Remuneration Policy, as per the processes and task allocations set forth by the Group's Publication Policy and the Integration's Data Disclosure Policy. Based on the above internal policies, Member Bank shall disclose data to the lead Member Bank and shall ensure that such data are true and correct.

Laying down the principles of Remuneration Policy

The duties of the Supervisory Board:

The Supervisory Board shall be responsible for approving, ensuring the regular review of the Remuneration Policy as well as monitoring the implementation of the Remuneration Policy.

It approves the significant exceptions to the approved Remuneration Policy or the modifications of the approved Remuneration Policy, and carefully weighs up and monitors the effects thereof.

Performance assessment criteria used by the Compliance Department shall be approved by the Supervisory Board in line with the principles laid down in the Remuneration Policy.

It shall approve the policy relating to the identification process as part of the Remuneration Policy, it participates in designing the identification process, and furthermore, it constantly monitors the process. It shall conduct a periodic review of the approved policy and modifies it when necessary.

The remuneration of members of governing bodies (Board of Directors) with a managerial authority shall be determined by the body having supervisory authority, the Supervisory Board, the owner or the General Assembly. Members of governing bodies with a managerial authority (Board of Directors) cannot decide about their own remuneration, decision is made by the Supervisory Board on the recommendation of the Remuneration Committee (if one has been created).

It supervises the implementation of the remuneration of leaders in independent control function (including risk management and adequacy function).

In the case of Group Members that are not credit institutions and where an arbitral Supervisory Board operates, the tasks that generally fall within the competence of the Supervisory Board shall be delegated to the General Assembly.

Duty of the Board of Directors:

The Board of Directors of a Member of the TakaréK Group shall be responsible for acknowledging and publishing the Remuneration Policy and shall be responsible for its implementation.

Review of the Remuneration Policy

The Group Remuneration Policy shall be reviewed annually, and it shall be issued as a policy with direct effect. Involvement of MTB Zrt's HR and controlling officers in laying down the principles of and implementing and reviewing the Remuneration Policy under the coordination of the MTB Zrt Staff shall be ensured by the annual review process, wherein they comment the rules and processes of remuneration, and the Priority Persons. Experts from the organizations falling under the scope of the Remuneration Policy may also be invited to comment.

Within the review process of the Remuneration Policy, the Compliance and Banking Security Directorate shall annually analyse the impacts of the Remuneration Policy on the institute's compliance with the legislation, policies, internal policies and the corporate risk culture. Furthermore, as part of a proposal for the approval of the Remuneration Policy, it shall report any identified compliance risks and deviations from the requirements to members of the management- and supervisory boards (MTB Board of Directors and MTB Supervisory Board).

In the TakaréK Group, the compliance check of the implementation of the Remuneration Policy shall be coordinated by the Integration Organization. The internal compliance check shall be conducted annually, also at the level of each institution. This was carried out in 2020 as well.

The compliance officer's report on the compliance check shall be discussed by the Member Bank's Board of Directors, Supervisory Board, Audit Committee, in case it works: Remuneration Committee and Risk Committee, and if necessary, they present their suggestions to amend the Remuneration Policy.

MTB Zrt's control function areas shall verify and review the compliance of the Remuneration Policy with the policies, strategies, regulations, procedures and internal rules, the fulfilment of central or group-level provisions.

By issuing the regulations on the Remuneration Policy, MTB Zrt shall ensure and require that the remuneration policies of the Group as a whole and of each member are consistent and harmonized, including identification processes and adequate implementation on a consolidated and individual basis.

7.2. Remuneration Statement for the Year 2020

1/ Members of the Management

The remuneration of the members of the management is governed by the provisions of the Remuneration Policy issued by MTB Zrt as a direct regulation No. 2/2020, which entered into force on 11 May 2020 and are applicable from 1 January 2020.

2/ Officers

The remuneration of the members of the Company's Board of Directors and Supervisory Board is the same as it was established during the Company's 2018 annual shareholders' meeting, the amount of which has been unchanged since 2007.

Statement of Responsible Corporate Governance on Compliance with the Recommendations on Responsible Corporate Governance

As part of the Responsible Corporate Governance Report of TakaréK Mortgage Bank Co. Plc. (registered seat: H-1117 Budapest, Magyar Tudósok körútja 9. Infopark G épület; company registration number: 01-10-043638; hereinafter: „the Company”) represents by submission of the following questionnaire on the extent the Company applied the recommendations set out in the specific points of the Responsible Corporate Governance Suggestions issued by Budapesti Értéktőzsde Zrt. (Budapest Stock Exchange).

Level of compliance with the Suggestions

The Company shall indicate whether or not it applies the given recommendation. For negative answers, the Company shall provide information about the reasons the recommendation is not followed.

1.1.1. Within the Company, an organizational unit engaged in investors’ account management is operating or an individual is appointed to maintain relations with investors.

Yes No

Explanation:

1.1.2. The Company’s articles of association is available on the Company’s website.

Yes No

Explanation:

1.1.4. If the Company’s articles of association allows shareholders to exercise their rights while absent, the Company has published the methods and conditions of the same on its website, including the necessary documents.

Yes No

Explanation:

1.2.1. The Company has published a summarizing documents on its website regarding the rules of conduct of general assemblies and exercising shareholders’ rights.

Yes No

Explanation: The Company provides the details of the rules of conducting general assemblies and exercising shareholders’ rights in the information bulletin about the convention of the general assembly, which bulletin is always published on its website.

1.2.2. The Company published the day of establishment of the scope of individuals entitled to participate in the given Company event (cut-off date) by indicating the exact date. Furthermore, the Company published the date of the last day of trading of shares entitling invitees to participate in the Company event.

Yes No

Explanation:

1.2.3. The Company convened its general assembly in a way that allowed for the participation of the largest number of shareholders possible.

Yes No

Explanation: Due to the declaration of the emergency situation in 2020, the Company could not hold a general meeting with personal participation in accordance with the relevant legislation, but in accordance with the provisions of the Articles of Association, it complies with the recommendation.

1.2.6. The Company did not hinder shareholders to send separate representatives for each safekeeping account regarding any general assembly.

Yes No

Explanation:

1.2.7. For proposals regarding each agenda item, in addition to the decision proposed by the Board of Directors, the opinion of the Supervisory Board was also available for shareholders.

Yes No

Explanation:

1.3.3. The Company did not hinder participant shareholders' rights to receive information, to make comments or motions, and the Company did not condition these to any circumstance or requirement, except for measures taken for the due and intended conduct of the general assembly.

Yes No

Explanation:

1.3.4. The Company ensured compliance with the principles of notification and publication under the stock exchange rules by answering questions arising at the general assembly.

Yes No

Explanation:

1.3.5. The Company published on its website the answers to questions arising at the general assembly that could not be adequately answered by the representatives of the Company's bodies or the auditors present at the meeting within three business days, or published its notification regarding the reasons of abstention from answering.

Yes No

Explanation: No such question arose in 2020.

1.3.7. The Chairman of the general assembly ordered a recess or proposed suspension of the general assembly, if, regarding the agenda items, new motions or proposals were received, so that shareholders did not have opportunity to familiarize with such motions or proposals in advance.

Yes No

Explanation: There was no such motion or proposal in 2020.

1.3.8.1. The Chairman of the general assembly did not apply joint voting procedures for decisions in connection with appointing or recalling members of the Supervisory Board.

Yes No

Explanation:

1.3.8.2. For members of the Supervisory Board appointed by shareholders' support, the Company provided information regarding the person of the supporting shareholder(s).

Yes No

Explanation:

1.3.9. Prior to discussing agenda items regarding the amendment of the articles of association, the general assembly adopted a separate decision whether the meeting intends to decide regarding each clause of the articles of association separately or by joint decisions, grouping the cases by certain criteria.

Yes No

Explanation: The general meeting always decides about amendments of the articles of association in a joint decision, irrespective of the number of clauses the amendment will affect. The proposal associated with the agenda item details the clauses affected by the amendment and the content of the amendment.

1.3.10. The Company published the Minutes of the general assembly containing the decisions, the details of the decision proposals and/or any significant questions and answers regarding such proposals within 30 days of the general assembly.

Yes No

Explanation:

1.6.1.1. The Company's publication guidelines cover possible electronic- and online publication procedures.

Yes No

Explanation:

1.6.1.2. The Company sets up its website by considering the criteria of publication and information of shareholders.

Yes No

Explanation:

1.6.2.1. The Company has an internal set of rules covering publications and handling information under Clause 1.6.2 of the Recommendations.

Yes No

Explanation:

1.6.2.2. The Company's internal rules also cover the classification of significant incidents in terms of publications.

Yes No

Explanation:

1.6.2.3. The Directorate/Board of Directors assessed the efficiency of publication processes.

Yes No

Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.2.4. The Company published the result of the review of the publication processes.

Yes No

Explanation: The Board of Directors established the guidelines of publication and through the Management, it ensures compliance.

1.6.3. The company published its corporate events calendar.

Yes No

Explanation:

1.6.4. The public was informed about the company's corporate strategy, its business ethics and its policies regarding other stakeholders.

Yes No

Explanation:

1.6.5. In the annual report or on the website the company has disclosed information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes No

Explanation:

1.6.6. The company has published the appropriate information on the work of the members of the Managing Body, the Supervisory Board and the executive management, the evaluation of the said work and the changes of the current year.

Yes No

Explanation:

1.6.8. The company disclosed its risk management guidelines, and provided information on the system of internal audits, as well as information about major risks and relevant management principles.

Yes No

Explanation:

1.6.9.1. The company disclosed its guidelines governing insiders' trading in the company's securities.

Yes No

Explanation:

1.6.9.2. The company published in the annual report or otherwise ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes No

Explanation:

1.6.10. The company disclosed any relationship between members of the Managing Body, the Supervisory Board and the executive management with a third party, which might have an influence on the operations of the company.

Yes No

Explanation: In 2020, no such case occurred.

2.1.1. The company's articles of association contains unambiguous provisions regarding the duties and competences of the General Meeting and the Board of Directors.

Yes No

Explanation:

2.2.1. The Managing Body regulates the rules of procedure defining all procedures and protocols for the preparation and holding of meetings and the tasks relevant to adopted resolutions, as well as other matters related to the operation of the Managing Body.

Yes No

Explanation:

2.2.2. The company disclosed the procedure for nominating members of the Managing Body and the remuneration principles.

Yes No

Explanation:

2.3.1. The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation, competence and duties, as well as the administrative procedures and processes which the Supervisory Board follows.

Yes No

Explanation:

2.4.1.1. The Managing Body and the Supervisory Board held meetings regularly, at times designated in advance.

Yes No

Explanation:

2.4.1.2. The rules of procedure of the Managing Body and the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes No

Explanation:

2.4.2.1. Board members had access to the proposals of a given meeting at least five days prior to the board meeting.

Yes No

Explanation:

2.4.2.2. The company ensured the orderly course of meetings and that minutes were recorded of the meetings, and the orderly management of the documentation and resolutions of the Managing Body and the Supervisory Board.

Yes No

Explanation:

2.4.3. The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.

Yes No

Explanation:

2.5.1. The nomination and election of the members of the Managing Body and the Supervisory Board took place in a transparent way, information on candidates was made public in due time prior to the General Meeting.

Yes No

Explanation:

2.5.2. The composition of boards and the number of members complies with the principles specified in point 2.5.2 of the Recommendations.

Yes No

Explanation:

2.5.3. The company ensured that newly elected board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members.

Yes No

Explanation:

2.6.1. At regular intervals (in connection with the preparation of the CG Report) the Board of Directors/Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes No

Explanation:

2.6.2. The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the management's work.

Yes No

Explanation:

2.6.3. The company disclosed on its website the guidelines on the independence of the Board of Directors/Supervisory Board, as well as the criteria applied for assessing independence.

Yes No

Explanation: The company has not disclosed a single document on the independence of the members of the Board of Directors and the Supervisory Board, but the rules of procedures of both the Board of Directors and the Supervisory Board includes the conflict-of-interest and the independence criteria in connection to its members. Both rules of procedures are disclosed on the website of the company

2.6.4. The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the five years prior to his nomination, not including the cases providing for employee involvement.

Yes No

Explanation:

2.7.1. Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a business or personal relationship to them) had such a significant personal stake relevant to a transaction of the company (or the company's subsidiary) that would make them not independent.

Yes No

Explanation:

2.7.2. Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted and approved according to general rules of practice of the company, but with stricter transparency rules in place.

Yes No

Explanation:

2.7.3. Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

Yes No

Explanation:

2.7.4. The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitors compliance with those guidelines.

Yes No

Explanation:

2.8.1. The company created an independent Internal Audit function which reports to the Audit Committee/Supervisory Board.

Yes No

Explanation:

2.8.2. The Internal Audit has unlimited access to all information and documents necessary for the inspections.

Yes No

Explanation:

2.8.3. Shareholders were informed of the operation of the Internal Safeguards' system.

Yes No

Explanation:

2.8.4. The company has a compliance function.

Yes No

Explanation:

2.8.5.1. The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes No

Explanation:

2.8.5.2. The appropriate body of the company and the General Meeting received information on the efficiency of risk management procedures.

Yes No

Explanation:

2.8.6. The Managing Body developed the risk management policy appropriate for the industrial and corporate peculiarities with the cooperation of the relevant fields.

Yes No

Explanation:

2.8.7. The Managing Body formulated the principles regarding the system of internal audits ensuring the management and control of risks relevant to the company's business activities, as well as achieving the performance and profit goals set by the company.

Yes No

Explanation:

2.8.8. Functions of the internal audit systems have reported at least once to the eligible body on the operation of internal audit mechanisms and corporate governance functions.

Yes No

Explanation:

2.9.2. The Managing Body invited the company's auditor to participate in the meetings debating the financial report with consultative powers.

Yes No

Explanation:

Level of compliance with the Suggestions

The company should indicate whether the relevant suggestion of the CGR is applied or not (Yes / No).

1.1.3. The company's articles of association render possible that the shareholder practise his right to vote even when absent

Yes No

Explanation:

1.2.4. The company has set the time and place of General Meetings proposed by shareholders with consideration to the shareholders' proposal.

Yes No

Explanation: In 2020, no shareholders-initiated general meeting was held.

1.2.5. The voting procedures applied by the company ensure the unambiguous, clear and fast declaration of the results, and in case of electronic vote, the validity and reliability of it

Yes No

Explanation:

1.3.1.1. The Managing Body and the Supervisory Board were represented at the General Meeting.

Yes No

Explanation:

1.3.1.2. The chairman of the General Meeting provided adequate information on the possible absence of the Management Body or the Supervisory Board before discussing the agenda in detail.

Yes No

Explanation:

1.3.2.1. The company' articles of association do not prevent that at the initiation of the chairman of the Managing Body of the company, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda, if they assume that the presence and contribution of the given party is necessary, or it facilitates the information of shareholders, the decision-making process of the general meetings.

Yes No

Explanation:

1.3.2.2. The company' articles of association do not prevent that at the initiation of the company's shareholders requesting the amendment of the agenda, any party be invited to the company's General Meeting and be granted the right of participation in the discussion of the relevant items on the agenda.

Yes No

Explanation:

1.3.6. The company's Annual Report complying with the Accounting Act includes a short, straightforward and illustrative summary for the shareholders, containing the important information relevant to the annual operation of the company.

Yes No

Explanation:

1.4.1. According to point 1.4.1., the dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.

Yes No

Explanation: The Company did not pay dividends in 2020.

1.6.11. In compliance with the provisions of point 1.6.11, the company also prepared and released its disclosures in English.

Yes No

Explanation:

1.6.12. The company informed its investors regularly, but at least on a quarterly basis, on its operations, financial situation and the assets and liabilities of the company.

Yes No

Explanation: In compliance with the provisions of the Credit Institutions Act, the company releases semi-annual reports.

2.9.1. The company regulates the internal procedures to be followed when employing an external advisor or an outsourced service of theirs.

Yes No

Explanation:



PROPOSAL
FOR AGENDA ITEM NO. 5



GRANTING AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE TREASURY
SHARES

Proposal:

The Board of Directors of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (the “Company”), acting on behalf of the annual General Meeting, authorized the Board of Directors by Act No. 32/7/2020 (04.24.) of 24 April 2020 to acquire the Company’s treasury shares pursuant to Section 3:223 (1) of Act V of 2013 of the Civil Code. This authorization is valid for 18 months.

The acquisition of the Company’s treasury shares is recommended in the subsequent period to maintain the stability of the share price and the planned implementation of the Company’s business strategy.

As a result of the deteriorating epidemiological situation, the Government of Hungary repeatedly introduced a state of emergency in Government Decree 478/2020 (XI.3.) on the declaration of the state of emergency. During the state of emergency introduced as a result of the emergency situation – in accordance with the regulations of Section 3 (1) of Government Decree 502/2020. (XI.16.) concerning the repeated introduction of the special provisions related to the operation of partnerships and capital companies – the decision-making body of a legal person, including a college of delegates or a section meeting, may not be convened in a way requiring the physical presence of members, even if the meeting has already been convened when the regulation enters into force.

Section 9 of the Government Decree regulates the rules for the operation of a public limited company during the state of emergency. According to Section 9 (2), the management of the public company limited by shares is entitled to make decisions on all issues included in the published agenda – including the Amendment of the Articles of Association – as well as on the issues specified in Section 5 (1). The management’s decision on the issues included in the published agenda may derogate from the proposed resolutions. The resolutions, made within the scope of competence of the General Assembly pursuant to this paragraph, must be published as defined by Section 3:279 of the Civil Code.

On this basis, we propose that the Board of Directors, acting on behalf the General Meeting, shall provide repeated authorization to the Board of Directors to acquire treasury shares for a period of 18 months by issuing a Decision, considering the type, class, number, nominal value of the shares to be acquired and the minimum and maximum amount of the consideration determined in the proposed Decision, pursuant to Section 3:223 (1) of Act V of 2013 of the Civil Code.

The Board of Supervisors agrees with the proposal of the Board of Directors.

Proposed resolution:

The Board of Directors of TakarékJelzálogbank Nyilvánosan Működő Részvénytársaság (the “Company”), acting on behalf of the annual General Meeting, authorizes the Board of Directors to acquire the Company’s treasury shares pursuant to Section 3:223 (1) of Act V of 2013 of the Civil Code, with the following conditions.

1. *Type, nominal value and amount of own shares to be acquired:*
 - *Series “A” ordinary shares with a nominal value of HUF 100,*

- *Series “B” priority share with a nominal value of HUF 100,*
 - *Series “C” ordinary shares with a nominal value of HUF 1,000,*
but up to 25% of the total nominal value of the share capital at the time.
2. *The purpose of acquiring treasury shares is:*
 - *to maintain the stability of the share price and the planned implementation of the Company's business strategy.*
 3. *The way of acquiring treasury shares is:*
 - *on an exchange or in an over-the-counter market, onerously.*
 4. *The minimum and maximum amount of consideration that can be paid for one treasury share:*
 - *in the case of Series “A” and “B” shares, the lowest purchase price is HUF 1, i.e. one Forint, and the highest purchase price is 125% of the volume weighted average stock exchange price of one Series “A” share before the trade date;*
 - *in the case of Series “C” share, the lowest purchase price is HUF 1, i.e. one Forint, and the highest purchase price is 1250% of the volume weighted average stock exchange price of one Series “A” share before the trade date.*
 5. *This authorization is valid for 18 months from the date of this Decision.*
 6. *Regarding other conditions for the acquisition of own shares, the relevant provisions of the Civil Code shall apply.*