Takarék Mortgage Bank Public Limited Company

Annual Riport

For the year ended 31 December 2021

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 2021

Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2021

Table of Contents **Pages**

GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Dr. Zsolt Harmath (2 January, 2022)
Rózsa Zsolt János (since 3 January, 2022)

Members of the Board of Directors
Dr. Gyula László Nagy
Attila Mészáros
Éva Hegedűs
Ildikó Ginzer
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
Attila 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 since 2020.
As the parent companies 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.
1117

Separate Statement of Profit or Loss for the year ended 31 December 2021

	Notes	2021	2020
Interest income	4	14,704	11,449
Interest expense	4	(10,456)	(8,237)
Net interest income		**4,248**	**3,212**
Fee and commission income	5	589	688
Fee and commission expense	5	(620)	(590)
Net fee and commission income		**(31)**	**98**
Profit/(Loss) from foreign exchange transactions	6	-	100
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	186	492
Gains on financial assets and liabilities held for trading	8	1	672
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	18	438	35
(Losses) from hedge accounting		(76)	(878)
Gains on financial assets and liabilities designated at fair value through profit or loss		238	290
Net trading result		**787**	**711**
(Losses)/Gains on derecognition of non-financial assets, net	9	(4)	157
Other operating income	9	439	530
Other operating expense	9	-	(16)
Operating income, net		**5,439**	**4,692**
Release of provision / (Provisions)	25, 30	3	(3)
Impairment on financial assets not measured at fair value through profit or loss	30	(224)	(133)
Impairment on non-financial assets	19,20	-	(8)
General and administrative expenses	10	(2,419)	(2,366)
Modification (Loss), net	30	(62)	(237)
Profit before tax		**2,737**	**1,945**
Income tax benefit	12	8	428
Profit for the year		**2,745**	**2,373**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Other Comprehensive Income for the year ended 31 December 2021

	Notes	2021	2020
Profit for the year		2,745	2,373
Other comprehensive loss	**13**	**(493)**	**(732)**
Items that will not be reclassified to profit or loss		**9**	**9**
Income tax benefit relating to items that will not be reclassified	13	9	9
Items that may be reclassified to profit or loss		**(502)**	**(741)**
Hedging instruments		183	3
Debt instruments at fair value through other comprehensive income		(685)	(744)
Total comprehensive income for the year		**2,252**	**1,641**
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)		22.82	19.73
Diluted earnings per share (HUF)		22.82	19.73
Weighted average number of shares		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2021

	Notes	31 December 2021	31 December 2020
Assets			
Cash, cash balances at central banks and other demand deposits	14	229	1,499
Financial assets held for trading	15	2,359	103
Financial assets at fair value through other comprehensive income	16	26,242	34,889
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	17, 18	634,964	573,880
Derivatives – Hedge accounting	29	-	926
Tangible assets	19,21	95	125
Intangible assets	20	203	208
Tax assets	12	512	348
Other assets	22	411	163
Total assets		**665,015**	**612,141**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2021

	Notes	31 December 2021	31 December 2020
Liabilities			
Financial liabilities held for trading	15	2,309	88
Financial liabilities designated at fair value through profit or loss	23	6,121	6,484
Financial liabilities measured at amortised cost	24	585,534	538,318
Derivatives – Hedge accounting	29	1,112	284
Provisions	25,30	28	116
Tax liabilities	12	147	4
Other liabilities	26	828	163
Total liabilities		**596,079**	**545,457**
Equity			
Share Capital	27	10,849	10,849
Share premium		27,926	27,926
Accumulated other comprehensive (loss)/ income	27	(233)	260
Retained earnings		26,417	24,319
Other reserve	27	1,439	1,164
Treasury shares (-)	27	(207)	(207)
Profit for the year		2,745	2,373
Total equity		**68,936**	**66,684**
Total equity and total liabilities		**665,015**	**612,141**

Budapest, 5 April 2022

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 2021

	Notes	2021	2020
Cash flow from operating activities			
Profit for the year		2,745	2,373
Non-cash adjustments to net profit from			
Depreciation and amortization		50	58
Impairment/provision/ (-) Release of impairment/provision for losses		153	124
Provision/ (-) Release of other impairment/ provision		(88)	(383)
(Gain)/Loss on tangible assets derecognized		(7)	3
Interest expense on the lease liability		1	1
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		1,719	856
Fair value adjustments on financial liabilities designated at fair value through profit or loss		(363)	(68)
Operating profit before change in operating assets		**4,210**	**2,964**
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		-	1,800
Non-trading financial assets mandatorily at fair value through profit or loss		2,097	-
Financial assets at fair value through other comprehensive income		8,154	-
Financial assets at amortised cost		(63,335)	(279,265)
Other assets		(412)	7,257
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		(2,910)	59,144
Other liabilities		808	(720)
Net cash flow from operating activities		**(51,388)**	**(208,820)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Cash Flows for the year ended 31 December 2021 (continued)

	Notes	31 December 2021	31 December 2020
Cash flow from investing activities			
Proceeds from sales of tangible and intangible assets		23	(3)
Purchase of tangible and intangible assets		(31)	(2)
Sales of subsidiary		-	-
Net cash outflow from investing activities		**(8)**	**(5)**
Cash flow from financing activities			
Repayment of leasing liabilities		(16)	(25)
Repayment/borrowing of long term loans		50,142	209,279
Net cash outflow from financing activities		**50,126**	**209,254**
Increase/ (-) Decrease in cash and cash equivalents		(1,270)	429
Opening balance of cash and cash equivalents		1,499	1,070
Closing balance of cash and cash equivalents		**229**	**1,499**
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		3	872
Due from banks with a maturity of less than 90 days		226	627
Closing balance of cash and cash equivalents		**229**	**1,499**
Supplementary data			
Interest received		*14,704*	*11,449*
Interest paid		*(10,456)*	*(8,237)*

All figures in tables are in HUF million except otherwise noted

Separate Statement of Changes in Equity for the year ended 31 December 2021

	Notes	Share capital	Share premium	Accumulated other comprehen-sive income	Retained earnings	Other re-serves	(-) Treasur shares
At 1 January 2020		**10,849**	**27,926**	**992**	**24,556**	**927**	**(20**
Profit for the year		-	-	-	2,373	-	
Other comprehensive income for the year		-	-	(732)	-	-	
General reserve		-	-	-	(237)	237	
At 31 December 2020		**10,849**	**27,926**	**260**	**26,692**	**1,164**	**(20**
1 January 2021 - Opening		**10,849**	**27,926**	**260**	**26,692**	**1,164**	**(20**
Profit for the year		-	-	-	2,745	-	
Other comprehensive income for the year		-	-	(493)	-	-	
General reserve		-	-	-	(275)	275	
At 31 December 2021		**10,849**	**27,926**	**(233)**	**29,162**	**1,439**	**(20**

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 Financ

1. DESCRIPTION OF THE BANK

The separate financial statements for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 5 April 2022. 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.takarekjzb.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 (to 02.01.2022.)
	Zsolt János Rózsa (since 03.01.2022.)
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 XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds as well as Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institution Act).
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 refinancing of long-term mortgage loans secured by mortgaged properties, and the issuance of long-term mortgage covered bonds (mortgage bonds).
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.

All figures in tables are in HUF million except otherwise noted

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.
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.
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, also in 2021. (See other pandemic notes 3.34. and 30.4)
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., hereinafter Hungarian Bankholding Ltd.) 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 Hungarian Bankholding Ltd. in the company register with its resolution no. 01-10-140865/5.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December 2020, 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 took place in 2021. The Board of Directors and the Supervisory Board of Hungarian Bankholding Ltd. have approved the strategy of the company for the next five years (2021-2025) 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. MTB Zrt. accepted the offered shares and classified mandatory public purchase offer as successful. After the transfer of the offered shares, the share of MTB Zrt. in Takarék Mortgage Bank Co. Plc. increased from 86.20% to 88.13%, and the combined share of MTB Zrt. and the persons acting in consultation with it, increased from 94.82% to 96.76%.

On December 15, 2021 the main bodies of MKB, Budapest Bank and Hungarian Savings Bankholding Ltd. (MTBH) (which is the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of Hungarian Bankholding Ltd., namely MKB and Budapest Bank are going to merge on March 31, 2022, while Takarék Group will join the merged bank in the second quarter of 2023.
In January 2022, the MNB approved the merger of Budapest Bank Zrt. and MTBH Ltd. (which is the owner of Takarék Group) into MKB Bank Plc. on March 31, 2022. The merged bank will temporarily operate under the name of MKB Bank Plc. The merger does not mean a change in the ownership structure of the banking group, the controlling owner of the banks participating in the fusion process will continue to be Hungarian Bankholding Ltd.
On 13 October 2021, the Hungarian Bankholding Ltd. contributed its shares owned in MTB Ltd. in kind to Hungarian Savings Bankholding Ltd. (MTBH). As a result, MTBH acquired 75,91% of the shares and 100% of the voting rights in MTB. Since MTB owns 88,13% of the shares and has 88,33% of the voting rights in Takarék Mortgage Bank Co. Plc., as a result of the in-kind contribution, MTBH became the indirect owner of 88,13% of the shares and 88,33% of the voting rights in Takarék Mortgage Bank Co. Plc.

In line with the previous years' practice TMB continued to tap the domestic mortgage bond market through public auctions organized at the Budapest Stock Exchange with a monthly/bi-monthly frequency in 2021. Total issued mortgage bond volume reached HUF 24.5bn, as a result of twelve transactions, which amount apparently lagged behind recent years' volume like in the whole domestic mortgage banking sector, as a consequence of two main factors. On one hand the Magyar Nemzeti Bank's purchases on the primary market under the scheme of Mortgage Bond Purchase Programme II. terminated in November 2020, whereas domestic mortgage banks (including TMB) maximized their mortgage bond issuances contributing to significantly lower funding cost. On the other hand the central bank officially launched its Green Mortgage Bond Purchase Programme–as a new element of its monetary policy tools– only in August 2021. In order to exploit the new programme, TMB issued its first ever green mortgage bond (TZJ27NF1, HUF 5bn nominal amount), which is planned to follow further green mortgage bond issuances in the short run.

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.

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. Initial application of new amendments to the existing standards effective for the current reporting period

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

- **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).

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

2.4.2. Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

- **IFRS 17 "Insurance Contracts" including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** - Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023).

2.4.3. New standards and amendments to the existing standards 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 and amendments to the existing standards, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS as issued by IASB):

- **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 IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction ((effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 17 "Insurance contracts"** Initial Application of IFRS 17 and IFRS 9 – Comparative Information (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),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

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
- Non-trading financial assets mandatorily at fair value through profit or loss
    - Loans and advances to customers at fair value
- 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 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 an 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, 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.
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.

3.7. Non-trading financial assets mandatorily at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured mandatorily at fair value through profit or loss.
The Bank measures mandatorily at fair value through profit or loss those financial assets, which are not held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.8. 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.

3.9. 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 asset 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.

3.10. Tangible and intangible assets

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

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%

All figures in tables are in HUF million except otherwise noted

Intangible assets have a definite useful life, excluding goodwill.

3.11. 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.
If that rate cannot be readily determined, the Bank use the lesse'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.
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.

3.12. 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.

3.13. 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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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.

3.18. 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".

3.19. Derecognition of financial instruments

3.19.1. 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.

3.19.2. 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.

3.20. 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.

3.21. Employee benefits

3.21.1. 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. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

3.21.2. 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.

3.22. Repurchased treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. The repurchased treasury shares are recognised at their nominal value within 'Treasury shares' at the time of the decision to repurchase made by the Board. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, and no gain or loss is recognized in the statement of profit or loss. If the Board, within the framework of the repurchase decision, simultaneously decides on revoking shares, then the Bank reclassify these shares to the liabilities up to the date of the effective cancellation.

3.23. 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.

3.24. 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 commisions when they relate and have to be included in the amortised cost modell shall be recognised among interest income.
Fees and commision incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.25. 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.

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.

3.26. 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.

3.27. 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.

3.28. 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.

3.29. 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.

3.30. 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.

3.31. Banktax

The Hungarian credit institutions are obliged to pay banking tax from the year 2010.
From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to IFRSat 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 2020 and 2021 was already booked in one sum at the beginning of the year.

3.32. 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.

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.

3.33. Reclassification and error

After the balance sheet date of the consolidated financial statements of 2020 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

3.34. Changes in the legal and regulatory environment and its effect on the separate financial statements

In the the state of emergency caused by the coronavirus pandemic the following government decrees and other regulatory instruments were issued which effected the Bank's operations:

- Government Decree No. 639/2020 (XII.22.) on immediate measures necessary for alleviating the effects of the coronavirus pandemic on national economy;
- MNB Decree No. 20/2021 (VI.23.) of the Governor of the National Bank of Hungary (MNB) on the regulation of financial institutions' maturity matching of forint assets and liabilities;
- 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.

3.35. Change in estimates

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

3.36. Comparative figures

Changes in the classification and valuation policy of a particular class of loans

In 2021, the Bank changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. The change in accounting policy was necessary due to the ongoing unification, as the main parent company of the Bank, Hungarian Bankholding Zrt., reviewed the group's practice of classifying certain state -subsidized loans according to IFRS9 in relation (primarily in the case of "CSOK" and "Baba-waiting loan=Babyloan). The interest payments on the affected retail loans are determined on the basis of the government bond reference yields and a multiplier, and the corresponding loan margin. Previously, in accordance with the Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2021, the Bank classified this type of loans as measured at fair value through profit or loss. The new accounting policy is in line with the practice of the majority of the players in the banking sector, thus better facilitating comparability.
The new accounting policy is applied retrospectively by the Bank as if it had always applied this the accounting policy. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy did not result in a material change in the carrying amount of the loans involved or equity. Therefore, the Bank did not change the related balance sheet values for the adjustment relating to period before those presented, the statements of financial position contains only the data at the end of the current period and at the end of the comparative period.

As a result of the change in accounting policy, the Bank adjusted the data for the comparative period in the statement of profit or loss account in accordance with the profit or loss items of the fair valuation categories. Due to the unchanged carrying amount in the balance sheet, this amendment resulted in the following reclassification between the profit or loss categories:

- The Bank recognizes the interest income on non-trading financial assets(loans) mandatorily at fair value through profit or loss in the Income similar to Interest Income line at the value corresponding to transactional interest. The comparative value of the line of interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using previously applied effective interest rate method.
- The Bank presents on the amount of commission income and commission expenses related to non-trading financial assets (loans) mandatorily at fair value through profit or lossin the Fee and commission income and Fee and commission expenses lines.
- The Bank presents the change in fair value of non-trading financial assets mandatorily at fair value through profit or loss,broken down into two components:
  - The Bank presents the portion of the change in fair value arising from changes in credit risk within Gains on non-trading financial assets mandatorily at fair value through profit or loss, net. This amount is determined using expected credit loss models used for loans measured at amortised cost. The comparative value of Impairment on financial assets not measured at fair value through profit or loss has been reduced accordingly with the loss allowance and reversal amounts for the respective loans.
  - The Bank presents the remaining component of the change in Gains on non-trading financial assets mandatorily at fair value through profit or loss, net.

The change in accounting policy did not impact the net profit for the comparative period.

The change in presentation means that the result recognized on these transactions is now presented in Income from fees and commissions.
In accordance with the new accounting policy, the Bank amended its respective disclosures notes. In the comparative figures the Bank reduced previously disclosed amortised cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Bank also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked 'Revised' by the Bank. The Bank also revised the presentation of the detailed notes to the amended profit and loss line items for comparative information in accordance with the new values in the statements of the profit or loss.

List of notes affected by the change:

Note number	Note description
Note 4	Interest and similar income and interest expense
Note 5	Fee and commission income and expense
	Gains on non-trading financial assets mandatorily at fair value through profit or loss, net
Note 17	Financial assets at amortised cost
Note 18	Non-trading financial assets mandatorily at fair value through profit or loss
Note 29.1.	Fair value of financial instruments / Loans and advances
Note 30	Risk management
Note 30.4	Credit risk
Note 33	Net gains

Line item	2020 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	2020 As previously presented
Interest income calculated using the effective interest method	10,330	(207)	10,537
Income similar to interest income	1,119	207	912
Interest income and similar to interest income	**11,449**	**-**	**11,449**
Fee and commission income	688	-	688
Fee and commission expense	(590)	(69)	(521)
NET FEE AND COMMISSION INCOME	**98**	**(69)**	**167**
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	35	35	-
Impairment on financial assets not measured at fair value through profit or loss	(133)	34	(167)
Profit for the year	**2,373**	**-**	**2,373**

All figures in tables are in HUF million except otherwise noted

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2021- 31 December 2021	1 January 2020 31 December 2020 (Revised presentation)	1 January 2020- 31 December 2020 (as previously presented)
Interest income			
Financial assets at amortised cost	13,111	9,826	10,033
Financial assets at fair value through other comprehensive income	411	504	504
Interest income calculated using the effective interest method	**13,522**	**10,330**	**10,537**
Financial assets held for trading	401	229	224
Non-trading financial assets mandatorily at fair value through profit or loss	204	207	-
Derivatives – Hedge accounting, interest rate risk	574	685	685
Interest income on financial liabilities	3	3	3
Income similar to interest income	**1,182**	**1,119**	**912**
Interest income and similar to interest income	**14,704**	**11,449**	**11,449**

**The accounting policy has changed the classification see in Note 3.36*

All figures in tables are in HUF million except otherwise noted

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Interest expense		
Financial liabilities measured at amortised cost*	9,456	7,413
Other liabilities	1	1
Interest expense calculated using the effective interest method	**9,457**	**7,414**
Financial liabilities held for trading	397	222
Derivatives – Hedge accounting, interest rate risk	333	318
Financial liabilities designated at fair value through profit or loss	261	271
Interest expense on financial assets	8	12
Expense similar to interest expense / Other interest expense	**999**	**823**
Interest expense and expense similar to interest expense	**10,456**	**8,237**

** 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 2021 it obtained HUF 235,766 million long-term (3- and 5-year) loans (HUF 212,989 million in 2020), which is used to purchase securities with favourable yield characteristics.

5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2021-31 December 2021	1 January 2020-31 December 2020 (Revised presentation)	1 January 2020-31 December 2020 (as previously presented)
Fee and commission income			
Mortgage loans	83	136	136
Handling commission	17	16	16
Real estate appraisal fee	318	365	365
Refinanced mortgage loans	171	171	171
Total	**589**	**688**	**688**

All figures in tables are in HUF million except otherwise noted

	1 January 2021-31 December 2021	1 January 2020 31 December 2020 (Revised presentation)	1 January 2020-31 December 2020 (as previously presented)
Fee and commission expense			
Fees and commissions to banks and to clearing house	11	9	9
Agency fee expense	228	70	1
Real estate appraisal fee	297	365	365
Treasury services	84	145	145
Other	-	1	1
Total	**620**	**590**	**521**

**The accounting policy has changed the classification see in Note 3.36*

6. PROFIT/(LOSS) FROM FOREIGN EXCHANGE TRANSACTIONS

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
FX transactions realized gains	-	-
FX transactions non-realized gains/(loss)	-	100
Profit/(Loss) from foreign exchange transactions	**-**	**100**

All figures in tables are in HUF million except otherwise noted

7. GAINS ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Financial assets at fair value through other comprehensive income	269	611
Financial assets at amortised cost	(74)	(161)
Financial liabilities at amortised cost	(9)	42
Total	**186**	**492**

8. GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
IRS deals*	(2,344)	788
CCIRS deals**	-	(102)
MIRS deals***	2,345	(19)
FX transactions	-	5
Total	**1**	**672**

*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

9. OTHER OPERATING INCOME AND EXPENSE

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Gains or (losses) on derecognition of non-financial assets, net		
Sales of inventory	-	-
Sales of property, plant, equipments	(7)	(3)
Invoiced expenses and services	1	2
Other*	2	158
Total	**(4)**	**157**

** 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 January 2021-31 December 2021	1 January 2020-31 December 2020
Other operating income		
Reversal of provision	85	396
SLA services income	163	86
Other income*	191	48
Total	**439**	**530**

**In 2021, HUF 171 million was accounted in other income derived from the write-off time-barred liabilities related to the settlement of foreign currency loan or borrowing contracts that did not qualify as a foreign currency basis based on the Act XXXVIII and XL of 2014.*

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Other operating expense		
Donation	-	3
Loss on damages compensations paid	-	1
Other expense	-	12
Total	**-**	**16**

All figures in tables are in HUF million except otherwise noted

10. GENERAL AND ADMINISTRATIVE EXPENSES

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Staff costs	315	207
Marketing and advertising	6	1
General and administrative costs	96	93
Rental fee	21	19
Depreciation of tangible assets	28	33
Amortisation of intangible assets	22	25
Consultancy fees*	430	185
Maintenance costs*	423	350
Banking tax*	-	98
Other taxes	185	177
Insurance fees	7	5
Database system usage	78	60
Supervisor fee	52	38
SLA service costs*	203	505
CBIC** fee, CBIC** Capital Fund and Resolution and Compensation Fund fees	463	531
Other	90	39
Total	**2,419**	**2,366**

**In 2021, consultancy fees includes a management service fee (HUF 280 million). Among the maintenance costs, a significant item is the cost of software operation and support (HUF 402 million). The banking tax can be reduced by the CBIC fee paid, so in 2021 its amount is zero. 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

11. STAFF COSTS

	1 January 2021-31 December 2021	1 January 2020-31 December 2020
Wages and salaries	272	180
Social security contribution	37	24
Other personnel related payments	5	3
Total	**315**	**207**

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 14 (2020: 15).

12. INCOME TAX

	31 December 2021	31 December 2020
Current income tax	**(147)**	**(4)**
Corporate income tax	(147)	(4)
Deferred tax income/ (expense)	**155**	**432**
Total	**8**	**428**

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 2021 and in 2020.

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.

	31 December 2021	31 December 2020
Profit and loss before tax	*2,737*	*1 945*
Calculated corporate income tax (9%)	(246)	(175)
Items modifying the tax base	99	171
Remunerative/Unremunerative deferred tax because of change in business	106	383
Other modification	49	49
Total	**8**	**428**

All figures in tables are in HUF million except otherwise noted

Deferred tax position

	31 December 2021				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	De
Items modifying corporate tax base	512	-	512	106	
Effect of corporate tax of IFRS adoption	-	-	-	49	
Net deferred tax position	**512**	**-**	**512**	**155**	

	31 December 2020				
	Deferred tax assets	Deferred tax liabilities	Deferred tax net position	Income statement effect	Deferre
Items modifying corporate tax base	406		406	383	
Effect of corporate tax of IFRS adoption	-	58	(58)	49	
Net deferred tax position	**406**	**58**	**348**	**432**	

All figures in tables are in HUF million except otherwise noted

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2021	31 December 2020
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	**(502)**	**(741)**
Hedging instruments	183	3
Debt instruments at fair value through other comprehensive income	(685)	(744)
Income tax relating to items that may be reclassified to profit or (-) loss	-	-
Total comprehensive income	**(493)**	**(732)**

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

	31 December 2021	31 December 2020
Cash on hand	-	-
Cash balances at central banks	3	872
Other demand deposits	226	627
Total	**229**	**1,499**

All figures in tables are in HUF million except otherwise noted

15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2021	31 December 2020
Financial assets held for trading		
IRS deals	-	81
MIRS deals	2,359	22
Total	**2,359**	**103**

	31 December 2021	31 December 2020
Financial liabilities held for trading		
IRS deals	2,299	14
MIRS deals	10	74
Total	**2,309**	**88**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021	31 December 2020
Equity instruments	10	10
Debt securities*	26,232	34,879
from this: Discount treasury tickets	22,644	-
from this: Government bonds	*3,588*	*31,870*
from this: Credit institution bonds	-	*3,009*
Total	**26,242**	**34,889**

**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.*

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 2021:

All figures in tables are in HUF million except otherwise noted

Shares	Fair Value at 31 December 2021
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 2021	31 December 2020 (Revised presentation)	31 December 2020 (as previously presented)
Debt securities gross*	250,536	229,366	229,366
from this: Government bonds	227,899	223,025	223,025
from this: Mortgage bonds	3,983	4,018	4,018
from this: Corporate	18,653	2,323	2,323
Impairment on debt securities	(15)	(32)	(32)
Loans gross	*364,570*	325,479	*337,337*
from this: Due from banks	*331,955*	287,397	*287,397*
from this: Retail	*32,100*	37,588	*49,446*
from this: Corporate	*515*	494	*494*
Impairment on loans	(1,051)	(832)	(866)
from this: Due from banks	(9)	(2)	(2)
from this: Retail	(1,016)	(806)	(840)
from this: Corporate	(26)	(24)	(24)
Advances gross	387	845	845
Impairment on advances	(11)	(11)	(11)
Deposit from central bank and other banks gross	10,764	7,243	7,243
Impairment on deposit from central bank and other banks gross	(3)	(2)	(2)
Total	**625,177**	**562,056**	**573,880**

**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

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	482	147	-	629
Collective	38	181	232	-	451
Total	**38**	**663**	**379**	**-**	**1,080**

The gross exposure of individual-impaired financial assets at amortised cost is HUF 2,056 million, and the gross exposure of collective-impaired financial assets at amortised cost is HUF 624,201 million at 31 December 2021. From the individual-impaired financial assets the gross corporate portfolio is HUF 515 million and the gross retail loan portfolio is HUF 1,546 million (related impairment HUF 601 million) at 31 December 2021. Among the collective-impaired financial assets, the gross corporate portfolio is HUF nil and the gross retail loan portfolio is HUF 30,554 million (related impairment HUF 415 million) at 31 December 2021.

31 December 2020 (Revised presentation)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	332	152	-	484
Collective	113	112	218	-	443
Total	**113**	**444**	**370**	**-**	**927**

31 December 2020	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	332	152	-	484
Collective	123	116	238	-	477
Total	**123**	**448**	**390**	**-**	**961**

All figures in tables are in HUF million except otherwise noted

18. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2021	31 December 2020 (Revised presentation)	31 December 2020 (as previously presented)
Loans*	9,787	11,823	0
Total	**9,787**	**11,823**	**0**

**The accounting policy has changed the classification due to comparative data see in Note 3.36*

Loans included in non-trading financial assets that are required to be measured at fair value through profit or loss are those groups of loans that do not pass the cash flow test. Gains on non-trading financial assets mandatorily at fair value through profit or loss amounted to HUF 438 million at 31 December 2021 (revised presentation value at 31 December 2020 is HUF 35 million, gain).

19. TANGIBLE ASSETS

31 December 2021	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	36	195	231
Increase	-	2	2
Decrease	-	(50)	(50)
Closing balance	36	147	183
Depreciation			
Opening balance	32	123	155
Annual depreciation	4	5	9
Decrease	-	(36)	(36)
Closing balance	36	92	128
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**55**	**55**

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 40 million as at 31 December 2021. (Note 21)

All figures in tables are in HUF million except otherwise noted

31 December 2020	Property	Office equip-ment	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.*

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 49 million as at 31 December 2020. (Note 21)

All figures in tables are in HUF million except otherwise noted

20. INTANGIBLE ASSETS

31 December 2021	Software	Other intangible assets	Total
Gross value			
Opening balance	1,178	-	1,178
Increase	17	-	17
Decrease	-	-	-
Closing balance	**1,195**	**-**	**1,195**
Depreciation			
Opening balance	872	-	872
Annual depreciation	22	-	22
Decrease	-	-	-
Closing balance	**894**	**-**	**894**
Impairment			
Opening balance	98	-	98
Increase	-	-	-
Decrease	-	-	-
Closing balance	98	-	98
Net value	**203**	**-**	**203**

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 2021.

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

31 December 2020	Software	Other intangible 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
Gross value	-	-	-
Decrease	(6)	-	(6)
Closing balance	98	-	98
Net value	**208**	**-**	**208**

21. IFRS 16 LEASES

Right-of-use asset

	31 December 2021	31 December 2020
Owned property, plant and equipment	55	76
Right-of-use assets, expect investment properties	40	49
Total property, plant and equipment	**95**	**125**

All figures in tables are in HUF million except otherwise noted

Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2021	31 December 2020
Short term	28	26
Long term	20	38
Total lease liabilities	**48**	**64**

Maturity analysis - undiscounted contractual payments

	31 December 2021	31 December 2020
Up to 1 year	28	26
1 year to 5 years	20	38
Total undiscounted lease liabilities	**48**	**64**

Right-of-use asset

	Property	Company Car	Total
Opening balane at 1 January 2020	**56**	**0**	**56**
Increase	-	12	12
Amortization for the year	(17)	(2)	(19)
Decrease	-	-	-
Balance at 31 December 2020	**39**	**10**	**49**
Increase	3	13	12
Amortization for the year	(15)	(3)	(18)
Decrease	(6)	(1)	(3)
Balance at 31 December 2021	**21**	**19**	**40**

Total cash outflow for leases

	31 December 2021	31 December 2020
Total cash outflow for leases	(16)	(25)

All figures in tables are in HUF million except otherwise noted

Items related to lease liabilities presented in profit or loss

	31 December 2021	31 December 2020
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, expect 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 2021	31 December 2020
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	(16)	(25)

22. OTHER ASSETS

	31 December 2021	31 December 2020
Prepaid expenses*	303	38
Settlements with the Hungarian State	-	-
Repossessed collateral	2	2
Reclaimable taxes**	102	117
Others	4	6
Total	**411**	**163**

** A significant part of the prepaid expenses is the revenue not yet invoiced, recognised under the SLA settlement agreement between the members of the MTB Bank group.*
*** A significant amount of reclaimable taxes has been accrued due to the special epidemiological tax, as the Goverment 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 (2021-2025).*

All figures in tables are in HUF million except otherwise noted

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 2021		31 December 2020	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	6,121	5,849	6,484	5,970
Floating interest	-	-	-	-
Total mortgage bonds	**6,121**	**5,849**	**6,484**	**5,970**
Total Financial liabilities designated at fair value through profit or loss	**6,121**	**5,849**	**6,484**	**5,970**

The total credit risk which is due to financial liabilities through profit or loss was HUF -0.09 million as of 31 December 2021 (31 December 2020: HUF 4.2 million).

24. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2021	31 December 2020
Due to banks	-	1,259
Loans received*	263,131	212,989
Debt securities issued	321,714	322,551
Other financial liabilities	689	1,519
Total	**585,534**	**538,318**

**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 2021 it obtained HUF 235,766 million (31 December 2020: 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

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 position:

	31 December 2021		31 Decem
	Net book value	Face value	Net book value
Non-listed mortgage bonds			
Listed mortgage bonds			
Fixed interest	290,985	286,764	292,039
Floating interest	30,729	30,406	30,512
Total mortgage bonds	**321,714**	**317,170**	**322,551**
Total issued securities	**321,714**	**317,170**	**322,551**

All figures in tables are in HUF million except otherwise noted

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 Mortgage Act provides that mortgage credit institution must at all times have collateral in excess 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 the state 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, or allowed by the Mortgage Act.

In case of loans secured by a residential real estate the principal arising from a mortgage loan can be considered as ordinary collateral 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 Mortgage 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 since 2019.

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.

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.

2021	Provision for loan commitments and guarantees	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2021	**1**	**15**	**100**	**116**
Increase in the period	-	-	-	-
Derecognition / Use of provision in the period	-	(2)	(86)	(88)
Closing balance at 31 December 2021	**1**	**13**	**14**	**28**

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. JZB has won the lawsuit in the second instance in 2021. In view of the above mentioned, provision was not set up in 2020 and 2021.

2020	Provision for loan commitments and guarantees	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
Utilization in the period	(19)	-	(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.

All figures in tables are in HUF million except otherwise noted

26. OTHER LIABILITIES

	31 December 2021	31 December 2020
Taxes payable	33	36
Accrued expenses	793	124
Income accounting	1	-
Other	1	3
Total	**828**	**163**

27. SHARE CAPITAL

27.1. Ownership structure

In 2021 there was no 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:

	31 December 2021		31 December 2020	
Shareholder	Holding %	Number of shares	Holding %	Number of shares
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	53.28	57,801,776	52.41	56,859,406
Foreign institutional investors	0.01	6,343	0.03	32,298
Domestic private investors	2.82	3,057,946	3.68	3,979,348
Foreign private investors	0.01	8,621	0.01	11,760
Employees, directors and senior management	0.00	0	0.00	0
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	4.45	4,832,225	4.45	4,832,225
Other	0.04	39,498	0.03	31,372
Subtotal	*60.84*	*66,000,010*	*60.84*	*66,000,010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	13.05	14,163,430	13.05	14,163,430
Subtotal	*13.05*	*14,163,430*	*13.05*	*14,163,430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	26.11	2,832,686	26.11	2,832,686
Subtotal	*26.11*	*2,832,686*	*26.11*	*2,832,686*
Total	**100**	**82,996,126**	**100.00**	**82,996,126**

All figures in tables are in HUF million except otherwise noted

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	53,117,887	80.48%
Hungarian National Asset Management Inc.	no	4,832,225	7.32%
Takarék Limited Investment Fund	no	3,808,180	5.77%
Total		**61,758,292**	**93.57%**

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	70,114,003	88.13%
Total		**70,114,003**	**88.13%**

27.4. Treasury shares purchased

	31 December 2021	31 December 2020
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 2021	31 December 2020
General reserve	1,439	1,164
Closing balance	**1,439**	**1,164**

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 1,439 million as at 31 December 2021 (General reserve was HUF 1,164 million as at 31 December 2020).

All figures in tables are in HUF million except otherwise noted

27.6. Cumulated other comprehensive income

	2021	2020
Opening balance	260	992
Cumulated other comprehensive income	**(493)**	**(732)**
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	**(502)**	**(741)**
Hedging instruments	183	3
Debt instruments at fair value through other comprehensive income	(685)	(744)
Income tax relating to items that may be reclassified to profit or loss	-	-
Closing balance	**233**	**260**

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 2021	31 December 2020
Loan commitments	24,391	22,120
Total	**24,391**	**22,120**

All figures in tables are in HUF million except otherwise noted

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 invesment 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.

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 2021		31 December 2020 (Revised presentation)		31 December 2020 (as previously presented)	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
Loans, advances and securities	625,177	598,072	562,056	591,922	573,880	580,101

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 2021	31 December 2020	31 December 2021	31 December 2020
IRS	-	81	-	8,879
MIRS	2,359	22	17,751	7,443
Total trading derivatives	**2,359**	**103**	**17,751**	**16,322**
Hedge deals	-	926	-	24,850
Total derivative financial assets	**2,359**	**1,029**	**17,751**	**41,172**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
IRS	2,299	14	17,501	3,922
MIRS	10	74	151	5,660
Total trading derivatives	**2,309**	**88**	**17,652**	**9,582**
Hedge deals	1,112	284	24,850	4,799
Total derivative financial liabilities	**3,421**	**372**	**42,502**	**14,381**

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 31,2021.

29.4. Fair value hedge transactions

31 December 2021

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	1,112	(24,293)	1,921	(2,185)	

All figures in tables are in HUF million except otherwise noted

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
- Surcharge implied by liquidity costs
- 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 mar-ket 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.

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, Refinitive, business reports, management letter of intent, etc.

Notes to the Separate Financial Statements

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

	31 December 2021		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	2,359	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	9,726
Securities at fair value through other comprehensive income	22,644	3,598	-
Derivatives – Hedge accounting	-	-	-
Total assets carried at fair value	**22,644**	**5,957**	**9,726**

	31 December 2021		
	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities held for trading	-	2,309	-
Financial liabilities designated at fair value through profit or loss	-	6,121	-
Derivatives – Hedge accounting	-	1,112	-
Total assets carried at fair value	**-**	**9,542**	**-**

	31 December 2020 (Revised presentation)		
	Level 1	Level 2	Level 3
Assets			
Financial assets held for trading	-	103	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	11,823
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**	**11,823**

All figures in tables are in HUF million except otherwise noted

	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**	**-**

Instruments' movements in Level 3	Non-trading financial assets mandatorily at fair value through profit or loss 2021	Non-trading financial assets mandatorily at fair value through profit or loss 2020
Opening balance	**11,823**	**14,373**
Statement of profit or loss	-	-
Profit	438	35
Other comprehensive income	-	-
Transactions	-	-
Purchase/portfolio growth	-	-
Sale of assets/Settlement/ Derecognition/	(2,474)	(2,585)
Tansfers	-	-
Transfer to Level 3	-	-
Transfer from Level 3	-	-
Closing balance	**9,787**	**11,823**

All figures in tables are in HUF million except otherwise noted

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.

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 exercise its authority on an individual level referring to the Bank.
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.
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.

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).

Methodology Committee (MB)

The competence of the Methodology Committee is exercised at the individual level of MBH and the Bank.

The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees. In detail:

• Defining risk strategy, risk self-assessment, risk appetite and related limits - proposing to the Board of Directors, allocating limits to group members

• Setting concentration and country risk limits, approving risk management principles, allocating and re-measuring limits

• Approval of changes in risk parameters affecting risk appetite, including risk methodological proposals related to product development

• Approval of risk regulations

• Regular and adhoc risk reports (credit risk, operational risk, large exposures, internal credit, other risks, except market and liquidity, which is the responsibility of the EFB)

• ICAAP-SREP methodological changes, parameters, credit ratings, etc. approval (Pillar 1 and Pillar 2, including market risk topics), monitoring, supervisory control

• Develop and monitor an SREP action plan

Modeling framework changes, model validation system approval

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.

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. There through 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.

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.
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 entirely 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.

Rating-Related Indicators: Based on a dynamic change in counterparty PDs that is linked to all transactions with the counter- party, 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.

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.

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.

IFRS 9 credit risk tables are presented below.*Credit risk exposure - Gross carrying amount per asset type, and loss allowar*
31 December 2021

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cre impaired
Gross carrying amount per asset type				
Cash on hand	**0**	-	-	
Cash balances at central banks	**3**	-	-	
Investment grade	*3*	-	-	
Other demand deposits	**226**	-	-	
Investment grade	*226*	-	-	
Securities at fair value through other comprehensive income	**26 232**	-	-	
Investment grade	*26 232*	-	-	
Securities at amortized cost	**250 535**	-	-	
Investment grade	*250 535*	-	-	
Due from banks	**342 718**	**0**	**0**	
Investment grade	342 718			
Default grade		-	-	
Non-investment grade		-	-	
Retail	**16 146**	**14 297**	**1 657**	
Investment grade	*16 140*	*14 023*	-	
Default grade	-	-	*1 571*	
Non-investment grade	*6*	*274*	*86*	

Credit risk exposure - Gross carrying amount per asset type, and loss allowance –

All figures in tables are in HUF million except otherwise noted

31 December 2021 (continued)

31 December 2021 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cred impaired
Gross carrying amount per asset type				
Corporate	4	-	511	
Investment grade	*4*	-	-	
Default grade	-	-	*511*	
Non-investment grade	-	-	-	
Advances	***376***	**-**	***11***	
Investment grade	*376*	-	-	
Non-investment grade	-	-	*11*	
Total gross carrying amount	**636,240**	**14,297**	**2,179**	
Loss allowance	38	663	379	
Carrying amount	**636,202**	**13,634**	**1,800**	

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

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

31 December 2020 (Revised presentation)	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased o originated cre impaired
Gross carrying amount per asset type				
Cash on hand	-	-	-	
Cash balances at central banks	*872*	-	-	
Investment grade	*872*	-	-	
Other demand deposits	627	-	-	
Investment grade	*627*	-	-	
Securities at fair value through other comprehensive income	34,929	-	-	
Investment grade	*34,929*	-	-	
Securities at amortized cost	229,366	-	-	
Investment grade	229,366	-	-	
Due from banks	294,640	-	-	
Investment grade	*294,640*	-	-	
Default grade	-	-	-	
Non-investment grade	-	-	-	
Retail	28,275	7,424	1,889	
incl.: gross carrying amount of client effected relief program from retail loan	***17,257***	***1,264***	***1,472***	
Investment grade	*27,121*	*6,719*	-	
Default grade	-	-	*1,889*	
Non-investment grade	*1,154*	*705*	-	

All figures in tables are in HUF million except otherwise noted

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

31 December 2020 (continued) (Revised presentation)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cre impaired
Gross carrying amount per asset type				
Corporate	7	-	487	
incl.: gross carrying amount of client effected relief program from corporate loan	**-**	**-**	**114**	
Investment grade	*7*	-	-	
Default grade	-	-	*487*	
Non-investment grade	-	-	-	
Advances	834	-	11	
Investment grade	*834*	-	-	
Default grade	-	-	*11*	
Non-investment grade	-	-	-	
Total gross carrying amount	**589,551**	**7,424**	**2,387**	
Loss allowance	113	444	370	
Carrying amount	**589,438**	**6,976**	**2,017**	

All figures in tables are in HUF million except otherwise noted

Impairment

31 december 2021	Gross exposure	Impairment allowance	C
Credit-impaired assets (stage 3)			
Retail loans	1,657	332	
Corporate loans	511	36	
Advances	11	11	
Total credit-impaired assets	**2,179**	**379**	

31 december 2021	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Individual	-	482	147
Collective	38	181	232
Total	**38**	**663**	**379**

31 december 2020 (Revised presentation)	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Individual	-	332	152
Collective	113	112	218
Total	**113**	**444**	**370**

All figures in tables are in HUF million except otherwise noted

31 december 2020 as previously presented	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Individual	-	332	152
Collective	123	116	238
Total	**123**	**448**	**390**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2021

Asset type all	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Impairment loss as at 1 January 2021	**113**	**444**	**370**	
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(11)	30	-	
Transfers from Stage 1 to Stage 3	(1)	-	59	
Transfers from Stage 2 to Stage 1	-	(1)	-	
Transfers from Stage 2 to Stage 3	-	(7)	36	
Transfers from Stage 3 to Stage 1	-	-	(1)	
Transfers from Stage 3 to Stage 2	-	1	(36)	
New financial assets originated or purchased	3	-	-	
Changes in PDs/LGDs/EADs	(64)	208	68	
Modification of contractual cash flows of financial assets	-	-	-	
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(3)	(13)	(115)	
Impairment loss as at 31 December 2021	**37**	**662**	**381**	

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Impairment movement table 2021

Asset type	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impai
Impairment loss as at 1 January 2021	**113**	**444**	**370**	
Due from banks	**8**	**-**	**-**	
Changes in PDs/LGDs/EADs	5	-	-	
New financial assets originated or purchased	3	-	-	
Financial assets derecognised during the period other than write-offs	-	-	-	
Retail	**(18)**	**214**	**10**	
Transfers:				
Transfers from Stage 1 to Stage 2	(11)	30	-	
Transfers from Stage 1 to Stage 3	(1)	-	59	
Transfers from Stage 2 to Stage 1	-	(1)	-	
Transfers from Stage 2 to Stage 3	-	(7)	36	
Transfers from Stage 3 to Stage 1	-	-	(1)	
Transfers from Stage 3 to Stage 2	-	1	(36)	
Changes in PDs/LGDs/EADs	(4)	205	67	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	(2)	(14)	(115)	

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2021 (continued)

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased originate credit-impa
Corporate	**-**	**4**	**1**	
Changes in PDs/LGDs/EADs	-	4	1	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	-	-	-	
Securities	**(66)**	**-**	**-**	
Changes in PDs/LGDs/EADs	(66)	-	-	
Impairment loss as at 31 December 2021	**37**	**662**	**381**	

Impairment movement table – 2020 Revised presentation

Asset type	Stage 1	Stage 2	Stage 3	P
	12-month ECL	Lifetime ECL	Lifetime ECL	Purch orig credit-
Impairment as at 1 January 2020	**25**	**405**	**572**	
Due from banks	**(1)**	**0**	**0**	
Changes in PDs/LGDs/EADs	**(2)**			
New financial assets originated or purchased	**1**			
Retail	**9**	**37**	**(151)**	
Transfers:				
Transfers from Stage 1 to Stage 2	(2)	14	0	
Transfers from Stage 1 to Stage 3	0	0	6	
Transfers from Stage 2 to Stage 1	1	(7)	0	
Transfers from Stage 2 to Stage 3	0	(7)	37	
Transfers from Stage 3 to Stage 1	0	0	(27)	
Transfers from Stage 3 to Stage 2	0	1	(9)	
Changes in PDs/LGDs/EADs	27	36	50	
Modification of contractual cash flows of financial assets	0	0	(3)	
Financial assets derecognised during the period other than write-offs	(17)	0	(205)	

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2020 Revised presentation (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Corporate	**-**	**2**	**(51)**	
Changes in PDs/LGDs/EADs	-	2	(51)	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	-	-	-	
Securities	**80**	**-**	**-**	
Changes in PDs/LGDs/EADs	80	-	-	
Impairment loss as at 31 December 2020	**113**	**444**	**370**	

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2020 as previously presented

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

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2020 as previously presented (continued)

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

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2020 as previously presented (continued)

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

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Provision movement table

Asset type	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Provision as at 1 January 2020	**1**	**1**	
Movements with P&L impact			
Transfers:			
Transfers from Stage 1 to Stage 2	-	-	
Transfers from Stage 1 to Stage 3	(1)	-	
Other movements with no P&L impact			
Financial assets derecognised during the period other than write-offs	-	-	(1
Provision as at 31 December 2020	**-**	**1**	
Provision as at 1 January 2021	**-**	**1**	
Movements with P&L impact			
Transfers:			
Transfers from Stage 2 to Stage 3	-	-	
Changes in PDs/LGDs/EADs	-	-	
Other movements with no P&L impact			
Financial assets derecognised during the period other than write-offs	-	-	
Provision as at 31 December 2021	**-**	**1**	

Exposure to credit risk on loan commitments and financial guarantees

31 December 2021	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Retail	73	56	-
Total exposure to credit risk	**73**	**56**	**-**

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

All figures in tables are in HUF million except otherwise noted

30.4.3. Payment relief programs

Client effected by payment relief program 2020

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 on 31 December 2020.
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.

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	-	3	3
Net amortised cost after modification	**17,230**	**2,628**	**19,858**

All figures in tables are in HUF million except otherwise noted

Clients affected by the payment relief programs / Number of loans in 2020

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%**

Clients affected by the payment relief programs / Carrying amount of the loans in 2020

31 December 2020	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*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 31 December 2020.

Client effected by payment relief program 2021

In 2021 the moratorium on repayment has been prolonged until 31 October 2021 with unchanged conditions based on the Government Decree 536/2021. about the amendment of 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 modification loss due to the amendment of the legislation was updated with a 4-month extension.

Client effected by payment relief program 2021 (based on statement about repayment moratorium)

Those financially disadvantaged clients who made a separate declaration until 31 October 2021 (filling a statement about repayment moratorium) can participate in the moratorium until 30 June 2022. The modification loss under this legislation was calculated based on the expected payment schedules as of 31 October 2021.
The below table contains information about these eligible clients:

All figures in tables are in HUF million except otherwise noted

Financial assets modified during the period 31 December 2021 (based on statement about repayment moratorium)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5	2,630	2,635
Loss allowance before modification	-	(121)	(121)
Net amortised cost before modification	5	2,509	2,514
Net modification gain/(loss) (change in gross carrying amount)	-	(12)	(12)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5**	**2,497**	**2,502**

Clients affected by the payment relief program (based on statement about repayment moratorium) / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	646	2,501	8.03%
Total (retail and corporate loans)	**646**	**2,502**	**8.03%**

Clients affected by the payment relief programs (based on statement about repayment moratorium) / Carrying amount of the loans in 2021

31 December 2021	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*5*	*1,861*	*757*	*2,623*
Investment grade	*5*	*1,860*	*-*	*1,865*
Default grade	*-*	*1*	*757*	*758*
Gross carrying amount	*5*	*1,861*	*757*	*2,623*
Allowances for credit losses	*-*	*(8)*	*(113)*	*(121)*
Carrying amount	***5***	***1,853***	***644***	***2,502***

Clients effected by interest rate cap program 2021

Based on Government Decree No. 782/2021 (XII.24.) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 30 June

All figures in tables are in HUF million except otherwise noted

2022 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.
The modification loss under this legislation was calculated based on the expected payment schedules as of 31 December 2021.

Financial assets modified during the period ended 31 December 2021 in case of contracts effected by interest rate cap program	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5,465	5,159	10,624
Loss allowance before modification	(4)	(160)	(164)
Net amortised cost before modification	5,461	4,999	10,460
Net modification gain/(loss) (change in gross carrying amount)	(51)	(47)	(98)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5,410**	**5,222**	**10,632**

Clients affected by interest rate cap program / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	4,738	10,632	33.26%
Total (retail and corporate loans)	**4,738**	**10,632**	**32.76%**

Clients affected by interest rate cap program /Carrying amount of the loans in 2021

31 December 2021	Non-impaired loans		Impaired loans	Total
	Stage 1	Stage 2	Stage 3	
Retail loans	*5,414*	*4,184*	*927*	*10,524*
Investment grade	*5,408*	*4,021*	-	*9,430*
Default grade	-	*163*	*927*	*1,090*
Non-Investment grade	*4*	-	-	*4*
Loss allowance	(4)	(17)	(143)	(163)
Carrying amount	***5,410***	***4,167***	***784***	***10,362***

All figures in tables are in HUF million except otherwise noted

30.4.4. 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.

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.

An analysis of forborne loan portfolio by loan types

31 December 2021	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	4,611	152	5,189	2,358
Corporate loans	384	19	365	1
Total	**4,995**	**171**	**4,824**	**2,359**

31 December 2020	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	5,273	125	5,148	2,730
Corporate loans	345	17	328	1
Total	**5,618**	**142**	**5,476**	**2,731**

30.4.5. 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 table below shows the structure of the collaterals:

	31 December 2021	31 December 2020
Mortgage	1,254,927	1,269,803
Bail	12	12
Guarantee	2,573	2,881
Total	**1,257,512**	**1,272,696**

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 2021	31 December 2020
Other demand deposit	226	627
Financial assets at fair value through other comprehensive income	26,232	34,929
Debt securities at amortised cost	250,536	229,366
Individual loans	32,161	49,446
Corporate loans	515	494
Dues from banks	342,719	294,640
Advances	387	845
Off-balance sheet commitments	24,391	22,120
Total gross credit risk exposure	**677,167**	**632,467**

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, 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

Interest rate risk exposure – sensitivity analysis (figures in HUF million)

	Sensitivity of interest income 2021	Sensitivity of interest income 2020	Sensitivity of interest income 31.12.2020 +10 bp	Sensitivity of interest income 31.12.2020 +25 bp
HUF	(12)	(1)	(118)	(295)

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 2021 net interest income would decrease by HUF 12 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 2021)	Effect on capital (31 December 2021)	Effect on earning before income tax (31 December 2020)	Effect on capital (31 December 2020)
EUR	30	30	80	80
USD	(80)	(80)	-	-
CHF	270	270	120	120
GBP	(160)	(160)	-	-

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 30 thousand, in case of CHF items it could increase with HUF 270 thousand. In case of USD items the estimated net earnings before tax and the share capital could decrease with HUF 80 thousand, and in case of GBP items it could decrease with HUF 160 thousand. The total effect is not significant.

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

31 December 2021	HUF	EUR	CHF	Other	Total
Total assets	658,337	6,264	414	-	665,015
Total liabilities	(589,506)	(6,166)	(397)	(10)	(596,079)
Equity	(68,936)	-	-	-	(68,936)
Off-balance sheet items	(15,015)	(9,376)	-	-	(24,391)
Position	**(15,120)**	**(9,278)**	**17**	**(10)**	**(24,391)**

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)**

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 its liquidity management financing position, based on different assumption scenarios that take into account the impact of stress situations. It maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits with MTB.

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2021	On de-mand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years
Banking liabilities						
Due to banks	-	-	-	-	-	
Loans received	-	260	25,495	237,376	-	
Issued debt securities	-	-	8,066	184,128	127,654	1,8
from this: Mortgage bonds	-	-	*8,066*	*184,128*	127,654	1,8
Other financial liabilities	585	55	28	21	-	
Total banking liabilities	**585**	**315**	**33,589**	**421,525**	**127,654**	**1,8**

31 December 2020	On de-mand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – year
Banking liabilities						
Due to banks	-	1,259	-	-	-	
Loans received	-	230	-	212,759		
Issued debt securities	-	-	-	181,753	63,472	77,3
from this: Mortgage bonds	-	-	-	*181,753*	*63,472*	*77,3*
Other financial liabilities	895	548	38	38	-	
Total banking liabilities	**895**	**2,037**	**38**	**394,550**	**63,472**	**77,3**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2021

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	229	-	229
Financial assets held for trading	2,359	-	2,359
Financial assets at fair value through other comprehensive income	26,232	10	26,242
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	20,279	614,685	634,964
Derivatives – Hedge accounting	-	-	-
Tangible assets	-	95	95
Intangible assets	-	203	203
Tax assets	512	-	512
Other assets	411	-	411
Total assets	**50,022**	**614,993**	**665,015**
Liabilities			
Financial liabilities held for trading	2,309	-	2,309
Financial liabilities designated at fair value through profit or loss	6,121	-	6,121
Financial liabilities measured at amortised cost	34,489	551,045	585,534
Derivatives – Hedge accounting	1,112	-	1,112
Provisions	28	-	28
Tax liabilities	147	-	147
Other liabilities	828	-	828
Total liabilities	**45,034**	**551,045**	**596,079**

All figures in tables are in HUF million except otherwise noted

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 and non-trading financial assets mandatorily at fair value through profit or loss	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

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.

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, Hungarian 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 2021 is the following. They are presented from the perspective of **the main parent company, Hungarian Bankholding Ltd.** and MTB Ltd.

Company	Classification	Core business
Hungarian Bankholding Ltd.	**Main Parent company**	Property management
MTB Magyar Takarékszövetkezeti Bank Zrt.	Parent company	Other monetary intermediation
Magyar Takarék Bankholding Zrt.	Parent company	Property management
Takarékbank Zrt.	Subsidiary	Other monetary intermediation
Takarék Lízing Zrt.	Subsidiary	Other lending
Takarék Ingatlan Zrt.	Subsidiary	Estate agent service
Takarék Invest Befektetési és Ingatlankezelő Kft.	Subsidiary	Property management
TIFOR Takarék Ingatlanforgalmazó Zrt.	Subsidiary	Property management
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
EQUILOR II. Magántőkealap	Associate	Investment fund
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
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
MKB-Pannónia Alapkezelő Zrt.	Associate	Fund management
Budapest Eszközfinanszírozó Zrt.	Subsidiary	Renting of tangible assets
Budapest Lizing Zrt.	Subsidiary	Financial leasing
Budapest Alapkezelő Zrt.	Subsidiary	Fund management

As at 31 December 2021 and 2020, the Bank did not have any loans to members of the Bank's management bodies.

	31 December 2021		31 December 2020	
	Head-count	Amount of emoluments	Head-count	Amount of emoluments
Members of Board of Directors	7	17	6	17
Members of Supervisory Board	6	15	6	16
Total payments	**13**	**32**	**12**	**33**

Details of transaction in 2021 and 2020 between the Bank and other related parties are disclosed on the next table.

31 December 2021	Parent	Subsidiaries	Associates	Key man-agement
Due from banks	9,710	1,243	-	-
Loans and advances to customers at amortised cost	-	313,704	-	-
Other assets	145	220	-	-
Total assets	**9,855**	315,167	**-**	**-**
Due to banks	25,483	-	-	-
Other liabilities	1,369	58,272	-	-
Total liabilities	**26,852**	58,272	**-**	**-**
Interest income	155	7,206	-	-
Interest expense	(125)	(1,760)	-	-
Net interest income	**30**	**5,446**	**-**	**-**
Fee and commission income	-	458	-	-
Fee and commission expense	-	(444)	-	-
Net fee and commission income	**-**	**14**	**-**	**-**
Other operating income	1,106	305	-	-
Other operating expense	(1,715)	(4,030)	-	-
Operating income	**(609)**	(3,725)	-	**-**
Operating expense	(532)	(9)	(448)	(32)
Profit/loss on transactions with related parties	**(1,111)**	**1,726**	**(448)**	**(32)**

All figures in tables are in HUF million except otherwise noted

31 December 2020*	Parent	Subsidiaries	Associates and joint ventures	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**	**-**	**-**
Net operating income	180	458	-	-
Operating income	**180**	**458**	**-**	**-**
Operating expense	(30)	(2)	(178)	(33)
Profit/loss on transactions with related parties	**108**	**3,039**	**(178)**	**(33)**

*For data as of December 31, 2020, the data were presented from the point of view of MTB as parent company, in accordance with the audited annual financial statements of 2020.

All figures in tables are in HUF million except otherwise noted

Outstanding balances with government related entries:

	31 December 2021		31 December 2020	
	Outstanding balances with government related entites *	Significant Transactions with government related entities**	Outstanding balances with government related entites*	Significant Transactions with government related entities**
Securities	254,131	-	259,769	-
Total assets	**254,131**	**-**	**259,769**	**-**
Due to banks	237,636	-	212,989	29,333
Total liabilities	**237,636**	**-**	**212,989**	**29,333**
Interest income	3,708	-	1,950	-
Interest expense	(1,847)	-	(840)	-
Total payments	**1,861**	**0**	**1,110**	**0**

** government related entries mean Hungarian National Bank – LTRO see note 24, Államadóság Kezelő Központ Zrt. ("ÁKK")- bought securities see note 16,17*
*** The significant transaction is according to IAS.24.26*

All figures in tables are in HUF million except otherwise noted

Related parties financial data preliminary, unaudited data

Related party	31 December 2021				
	Direct holding %	Assets	Liabilities	Equity	
Hungarian Bankholding Ltd.	0%	753,672	10,052	743,620	
MTB Magyar Takarékszövetkezeti Bank Zrt.	0%	1,507,980	1,469,024	38,956	
Magyar Takarék Bankholding Zrt.	0%	102,194	21	102,173	
Takarékbank Zrt.	0%	3,228,322	3,127,033	101,289	
Takarék Lízing Zrt.	0%	61,473	60,161	1,312	
Takarék Ingatlan Zrt.	0%	766	162	605	
Takarék Invest Befektetési és Ingatlankezelő Kft.	0%	2,765	11	2 755	
TIFOR Takarék Ingatlanforgalmazó Zrt.	0%	6,352	232	6 119	
TIHASZ Takarék Ingatlanhasznosító Zrt.	0%	26,744	466	26 278	
Takarék Faktorház Zrt.	0%	11,342	10,624	718	
Takarék Központi Követelés Kezelő Zrt.	0%	3,849	443	3,406	
Takarékszövetkezeti Informatikai Kft.	0%	1,710	7	1,703	
EQUILOR II. Magántőkealap	0%	6,993	3	6,990	
DBH Investment Zrt.	0%	514	257	257	
Takarék Zártkörű Befektetési Alap	0%	11,388	8	11,381	
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	0%	12,476	1	12,475	
OPUS TM1 Ingatlan Befektetési Alap	0%	2,170	14	2,157	
Takarék Kockázati Tőkealap	0%	9,687	209	9,477	
MPT Security Zrt.	0%	5,555	1,983	3,572	

All figures in tables are in HUF million except otherwise noted

Notes to the Separate Financial Statements

Related parties financial data preliminary continuing, unaudited data

Related party	31 December 2021			
	Direct holding %	Assets	Liabilities	Equity
Takarékinfo Központi Adatfeldolgozó Zrt.	0%	24,272	25,846	1,574
Budapest Bank Zrt.	0%	2,519,276	2,345,882	173,394
MKB Bank Nyrt.	0%	3,319,223	3,080,310	238,913
MKB Üzemeltetési Kft.	0%	36,101	1,625	34,476
Euro – Immat Üzemeltetési Kft.	0%	5,386	696	4,690
MKB Digital Szolgáltató Zrt.	0%	1,407	657	750
MKB-Euroleasing Autólízing Zrt.	0%	199,114	191,067	8,048
MKB Bank MRP Szervezet	0%	3,455	15	3,440
Retail Prod Zrt.	0%	824	25	798
MKB-Pannónia Alapkezelő Zrt.	0%	-	-	-
Budapest Eszközfinanszírozó Zrt.	0%	2,665	1,421	1,244
Budapest Lizing Zrt.	0%	126,421	119,016	7,405
Budapest Alapkezelő Zrt.	0%	3,235	206	3,029

All figures in tables are in HUF million except otherwise noted

33. NET GAINS

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

1 January 2021 – 31 December 2021	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 liabilitie
Interest income	401	204	411	13,111	574	
Interest expenses	(397)	(261)	0	(9,457)	(333)	(
NET INTEREST INCOME	**4**	**(57)**	**411**	**3,654**	**241**	**(**
Fee and commission income	-	-	-	-	-	58
Fee and commission expenses	-	-	-	-	-	(62
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**(3**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	269	(83)	-	
Gains on financial assets and liabilities held for trading, net	1	-	-	-	-	
Gains on financial assets and liabilities designated at fair value through profit or loss	-	238	-	-	-	
Gains on financial assets and liabilities mandatorily at fair value through profit or loss		438	-			
(Losses) from hedge accounting, net	-	-	-	-	(76)	
Gains on derecognition of non-financial assets	-	-	-	-	-	
Other operating income	-	-	-	-	-	
Other operating expense	-	-	-	-	-	
OPERATING INCOME	**5**	**619**	**680**	**3,571**	**165**	**(3**

All figures in tables are in HUF million except otherwise noted

1 January 2020 – 31 December 2020 (Revised presented)	Financial assets and liabilities held for sale	Change in the fair value attributable to changes in the credit risk of loans mandatorily measured	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/
Interest income	224	207	-	504	9,826	685	
Interest expenses	(222)	-	(271)	-	(7,413)	(318)	
NET INTEREST INCOME	**2**	**207**	**(271)**	**504**	**2,413**	**367**	
Fee and commission income	-	-	-	-	-	-	
Fee and commission expenses	-	(69)	-	-	-	-	(5
NET FEE AND COMMISSION INCOME	**-**	**(69)**	**-**	**-**	**-**	**-**	
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**	
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	611	(119)	-	
Gains on financial assets and liabilities held for trading, net	672	-	-	-	-	-	
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	35	-	-	-	-	
Gains on financial assets and liabilities designated at fair value through profit or loss	-	-	290	-	-	-	
(Losses) from hedge accounting, net	-	-	-	-	-	(878)	
Gains on derecognition of non-financial assets	-	-	-	-	-	-	
Other operating income	-	-	-	-	-	-	
Other operating expense	-	-	-	-	-	-	
OPERATING INCOME	**674**	**173**	**19**	**1,115**	**2,294**	**(511)**	

All figures in tables are in HUF million except otherwise noted

1 January 2020 – 31 December 2020	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
Interest income	224	-	504	10,033	685	3
Interest expenses	(222)	(271)	-	(7,413)	(318)	(13)
NET INTEREST INCOME	**2**	**(271)**	**504**	**2,620**	**367**	**(10)**
Fee and commission income	-	-	-	-	-	688
Fee and commission expenses	-	-	-	-	-	(521)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**167**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	611	(119)	-	-
Gains on financial assets and liabilities held for trading, net	672	-	-	-	-	-
Gains on financial assets and liabilities designated at fair value through profit or loss	-	290	-	-	-	-
(Losses) from hedge accounting, net	-	-	-	-	(878)	-
Gains on derecognition of non-financial assets	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-
Other operating expense	-	-	-	-	-	-
OPERATING INCOME	**674**	**19**	**1,115**	**2,501**	**(511)**	**157**

All figures in tables are in HUF million except otherwise noted

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 f the Bank.
Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also u available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermo table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Sh ance 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 2021:

31 December 2021	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
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**27,623**	**-**	**-**	**(207)**
Accumulated other comprehensive income	-	-	-	-	233	(233)	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-
General reserve	-	-	-	1,439	(1,439)	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,439**	**26,210**	**(233)**	**207**	**(207)**

All figures in tables are in HUF million except otherwise noted

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
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**25,743**	**-**	**-**	**(207)**
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)**

All figures in tables are in HUF million except otherwise noted

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 wi

	31 December 2021
Share capital in accordance with IFRS adopted by EU	10,849
Share capital registered on the Registry Court	10,849
Difference	**-**

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

	31 December 2021
Retained earnings and other reserves	27,623
Unused portion of reserve for developments	-
Other capital reserve	-
Accumulated other comprehensive income	(233)
Repurchased treasury shares (Tied-up reserve)	207
General reserve	(1,439)
Profit for the year	2,745
Untied retained earnings available for the payment of di-vidends	**28,903**

All figures in tables are in HUF million except otherwise noted

34. POST BALANCE SHEET EVENTS

Auction
The Bank organized the auction of the third tranche of TJ25NV01 Takarek mortgage (covered) bond (maturity: 26.11.2025, interest rate: variable/current annual interest: 3.67%) on 24 January 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 10,060 million, the total nominal value issued was HUF 7,200 million, while the average selling price (net) was 100.4153%.

The Bank organized the auction of the third tranche of TJ26NF02 Takarek mortgage (covered) bond (maturity: 22.12.2026, interest rate: fix: 1.75%) on 8 February 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 7,970 million, the total nominal value issued was HUF 12,520 million, while the average selling price (net) was 84.5527%.

At the end of February the Bank arranged a double green mortgage bond issue transaction. It offered to the investors the second tap of TZJ27NF1 originally 6 year tenor, with 5 year tenor and 3.5 coupon total offered (nominal) value of HUF 5 billion green covered bond and the first tap of TZJ32NF1 10 year tenor, with 5.75% coupon and total offered (nominal) value of HUF 3 billion. As a result of the auctions, the Bank issued 7.45bn and 1.97bn forint nominal amounts, respectively.

European Energy efficient Mortgage Label
The Bank as the first Hungarian Mortgage Bank joined the family of the European Energy efficient Mortgage Label (EEML) on 21st of February 2022. EEML is a clear and transparent quality label for consumers, lenders and investors, aimed at identifying energy efficient mortgages (EEM) in lending institutions' portfolios, which are intended to finance the purchase/construction and/or renovation of both residential (single family & multi-family) and commercial buildings, with a focus on building energy performance. The EEML is intended as a global benchmark for EEM from the perspective of lending institutions and institutional investors. The membership is extremely increase the reputation of the Bank. (The Hungarian Central Bank is also among the members of the EEML Advisory Council.

Issued Bond by Hungarian Bankholding Ltd.

Based on paragraph 20/H (1) – effective from October 29, 2021 – of Act 135 of 2013 on the modification of the integration of cooperative credit institutions and select economic legislation the Integration Organization – in order to meet the goals of the integration of credit institutions – is obliged to invest its assets until January 31, 2022 into bonds, to be issued by the financial holding parent company, i.e. the Hungarian Bankholding Ltd. (which has supervisory control influence over the Integration Organization) for 20-year maturity, paying a coupon that matches the average YTM of applicable government bonds as published on the website of AKK Ltd. (State Debt Management Centre) provided that Hungarian Bankholding Ltd. is obliged to issue these bonds at a value, which is set in the inquiry of the Integration Organization according to legal provisions.
In its resolution made on January 20, 2022 the general meeting of Hungarian Bankholding Ltd. ordered to the bond issuance. Based on the resolution of the general meeting the MBH 2042/A bond series (ISIN: HU0000361282) was issued and subscribed by the Integration Organization within the statutory deadline. Hence, as of January 31, 2022 the Integration Organization's securities account was credited by 3,794 pieces of MBH 2042/A bonds bearing a face value of HUF 50 million each, while the account of Hungarian Bankholding Ltd., the issuer, was credited by HUF 188,220.34 million as the value of the bonds sold at the 99.22% subscription price.

Russian / Ukrainian conflict

After the closing of Q4 2021, the Russia conflict of -Ukraine meant an important change in the economic environment in late February 2022. Geopolitical conflicts contribute to the uncertainty of growth prospects. The favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures, and these trends have been exacerbated by the war. The conflict, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% in February after 5.1% in January. Domestic price pressures rose to 8.3% in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.
In response to developments since the end of February, Hungarian National Bank (MNB) raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the O/N (overnight) deposit remained unchanged. MNB announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (MNB raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). High inflation could dampen strong economic growth this year for both the domestic and European economies.

The Ukrainian-Russian war has not caused any significant direct economic loss for Takarék Mortgage Bank, nor for the other members of Hungarian Bankholding. Both the Bank's capital situation and its liquidity position are stable, and it has sufficient reserves. There is at this time no known material direct banking risk in either the retail or the corporate customer portfolios. Interbank money market limits towards the countries concerned were immediately closed (there was no exposure). The hedge monitoring of customer positions has been confirmed (there is no customer positions below the hedging limit).
None of the members of the Bankholding had any material open FX positions and recent volatile movements in FX rates did not result in any significant direct losses.

The Strategic Analysis Centre of Hungarian Bankholding continuously monitors and analyses the relevant changes in the money and capital markets. The price volatility of the Hungarian forint has increased in line with regional currencies. Despite this, the Bank has not observed any significant retail demand for foreign currency exchange or foreign exchange compared to normal business. Any changes in asset prices (including financial assets and properties held as collateral) are also a focus of the monitoring.
All members of Bankholding comply with EU and US sanctions bans lists, including the requirements for exclusion of a number of commercial banks in Russia and Belarus from the SWIFT system. This increases the likelihood for more difficult trade and money transfer relationship for Hungarian companies involved in Russian or Belarus relations.

In connection with the Ukrainian-Russian war, the Bank continues to monitor for clients who may be directly or indirectly affected, and their follow-up is carried out by members of the Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based upon the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

In case of Takarek Mortgage Bank: The Bank does not have a significant corporate portfolio, in case of retail portfolio, the perceived increases in risk observed during routine monitoring processes should be individually identified and managed at the time of occurrence.

TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2021
(MANAGEMENT REPORT)

Budapest, April 5, 2022

dr. Gyula László Nagy	**Attila Mészáros**
Chief Executive Officer	Deputy CEO

TABLE OF CONTENTS

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 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.

The ownership structure of Takarék Mortgage Bank Plc at the end of 2021 and 2020

	December 31, 2021		December 31, 2020	
Shareholder	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
„A” shares listed on BSE				
Domestic institutional investors	53.28	57,801,776	52.41	56,859,406
Foreign institutional investors	0.01	6,343	0.03	32,298
Domestic private investors	2.82	3,057,946	3.68	3,979,348
Foreign private investors	0.01	8,621	0.01	11,760
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	0.04	39,498	0.03	31,372
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 Bank founded new subsidiaries, among them the Takarék Commercial Bank Ltd. (henceforth “the Commercial Bank”).

In September 2015 the Bank and the Commercial Bank (under the Bank’s majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ), the latter created by Act CXXXV of 2013 on the integration of cooperative credit institutions and the modification of select economic legislation. In parallel, it also became the member of the Guarantee Community of Cooperative Credit Institutions.

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 Takarék Group.

In the fourth quarter of 2016 the share of the Bank of Hungarian Cooperatives Ltd. (the central bank of the integration of cooperative credit institutions, hereafter referred to as MTB) and the cooperative credit institutions increased to more than 68%.

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.

From April 2018 the Bank makes no more new loan disbursements. Previously made credit contracts are 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.

The general assembly of the Company on April 27, 2018 made a decision over the changing of the name of the Bank. It is from June 25, 2018 that the Company’s name is Takarék Mortgage Bank Plc.

In the revised 5-year strategy of the Takarék 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**.**

On October 29, 2019, the Bank’s 51% ownership share in the Commercial Bank was fully sold to the MTB, and hence for the first time in 2020 the Bank prepared no consolidated annual report. The owners of the Bank – Magyar Bankholding Zrt. (henceforth MBH) as the ultimate parent company as well as MTB and MTBH Ltd. – 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.

The credit rating of mortgage bonds issued by the Bank is performed by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank’s mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. No change has taken place in the rating since then.

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 former 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 MTB published in official publication platforms its mandatory public purchasing bid for all shares issued by the Bank, and submitted its application for a permit to the Hungarian central bank. Based on the central bank's permit the period for the purchase offer started on January 19, 2021, while the deadline for the acceptance of the bid was February 17, 2021. MTB accepted all the shares that were offered 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 86.20% 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.

In October 2021 MBH transferred MTB to MTBH Ltd., which will merge with MKB and Budapest Bank on March 31, 2022. MTB (Takarék Group) will be a subsidiary of the merged bank, which is to be called MKB.

On December 15, 2021 the main bodies of MKB, Budapest Bank and MTBH Ltd. (which is the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of MBH, namely MKB and Budapest Bank as well as MTBH Ltd. is going to merge on March 31, 2022. During this process Budapest Bank merges into MKB, while MTB (Takarék Group) becomes a subsidiary of the merged bank. Takarékbank will join the merged bank in the second quarter of 2023. From March 31, 2022 the merged bank becomes the governing body of the Group and will temporarily operate under the name of MKB Plc. The unified brand for the new banking group will be introduced in early-2023.

2 THE MACROECONOMIC ENVIRONMENT IN 2021

2.1 THE HUNGARIAN ECONOMY IN 2021[1]

Major macroeconomic indicators	2019	2020	2021
Real GDP growth	4.6%	(4.7)%	7.1%
Average annual rate of inflation	3.3%	3.3%	5.1%
Average annual rate of unemployment	3.3%	4.1%	4.1%
Gross wage growth	11.4%	9.7%	8.5%
ESA-based budget balance (relative to GDP)*	(2.1)%	(8.1)%	(7.4)%
Gross public debt (end-of-year, relative to GDP*)	65.5%	80.0%	78.2%
Net external financing capacity (relative to GDP)*	1.2%	0.4%	(1.4)%
Base rate (end-of-year)	0.90%	0.60%	2.40%
Rate on the central bank's one-week deposit facility (end-of –year)	-	0.75%	4.00%
EUR-HUF exchange rate (end-of-year)	330.52	365.13	369.00

**Projection for 2021, final for 2019, 2020*
Sources: KSH, MNB, NGM

By 2021 the productive sectors and most of the services sectors of the Hungarian economy adapted well to the constraints that were introduced in the wake of the coronavirus pandemic, hence the recovery, which already began in the second half of 2020 continued at a fast rate in the first half of 2021. This, evidently, continued to enjoy further support from the economic measures of both the government and the central bank aimed at boosting investments and preserving jobs, at the same time foreign demand remained supportive for growth as well. This situation changed somewhat in the second half of 2021: the supply side was unable to keep up with the pace of the global demand boom after the depletion of inventories leading to severe shortages in numerous manufacturing sectors (the most notable of those were shortages in semiconductors), the impacts of which were also felt in the most important industries of the Hungarian economy, primarily in the automitve sector. The mismatch in the supply-demand balance was accompanied by marked price increses, which, moreover, spread to a wide range of products and also had a slowing effect on the rate of economic growth. Hence, growth dynamics markedly decelerated in the third quarter. However, supported by major additional fiscal expenditures growth intensified in the fourth quarter again, and on annual average GDP finally increased by 7.1% in 2021.

On top of the externally originating price pressures due to the supply-demand mismatch, the fast pace of the catching up of wages also contributed to higher inflation in Hungary, hence CPI inflation rose above the upper edge of the inflation tolerance band as early as March and it did not return there in the rest of the year. What's more, core inflation, which captures the underlying inflationary processes, also broke out of the tolerance band in the second half of the year.

On annual average consumer prices increased by 5.1% in 2021, but the 12-month rate of inflation even surpassed 7% at the end of the 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

From around the middle of the year the central bank started fighting against rising inflation actively by raising the policy rate and gradually withdrawing its liquidity boosting monetary tools and thus prevent from the forming of second-round inflationary impacts. Beyond tightening interest rate conditions the central bank discontinued its Funds for Growth Scheme when its budget was depleted, it stopped its long-term refinancing operations (extending long-term covered loans to the credit institutions), it first downsized and at the end of the year it finished its government securities purchase programme, neither did it extend the budget allocated for purchases in the frame of the Bond Funding for Growth Scheme. In order to be able to react more flexibly to higher volatility on money markets it decoupled the rate on its one-week deposit facility (its main sterilisation instrument) from the base rate and set it by weekly frequency, before the weekly tenders took place. Since the central bank accepted credit institutions' free liquidity without any upper limit, the rate of this tool has become the effective policy rate, while the base rate, at least temporarily, lost its significance for the markets, although it remained the main instrument to demonstrate the central bank's anti-inflationary stance. Eventually, the base rate was raised by an altogether 180bps and stood at 2.4% at the end of 2021, whereas the rate on the one-week deposit facility increased by 325bps to stand at 4% at the end of last year. In fact, the government also made steps to slow down inflation: it declared an upper limit on the retail sale of fuel prices in November.

In order to maintain the dynamics of economic recovery fiscal policy remained expansive in 2021: the cash-flow based deficit of the central budget amounted to HUF 5,100 billion (following HUF 5,500 billion in 2020), which in ESA-terms could translate to 7.5% of GDP. By issuing a higher amount of Eurobonds than originally planned, this deficit, similarly to the previous year, was overfinanced by the State Debt Management Agency (AKK) in 2021, hence public debt moderated by only a small amount relative to GDP: from 80% at the end of 2020 it decreased to 78%. Since economic growth was driven by domestic demand, which has high import content, external balances clearly deteriorated in 2021: the net external financing capacity (the combined balance of the current and the capital account) exhibited a deficit of around 1.4% of GDP. The overfinancing of the budget deficit by Eurobonds also led to rising net external debt relative to GDP and it drifted further away from the single-digit figure it already achieved back in 2019.

The number of newly built dwellings in 2021 decreased by almost 10% compared to 2020, but the number of new building permits and simplified notifications for the construction of new dwellings increased by well over 30% compared to the preceding year. The fall in the number of newly built dwellings did not impact Budapest (the capital city actually saw a rise of 11%), but cities (-40%) and villages (-45%) were hit hard. Yet, the growth in the number of bulding permits was strongest in the latter (around 50%), while Budapest saw a decrease of 14% compared to 2020. Following a temporary fall in 2020, house prices started increasing rapidly again in 2021 in part due to rises in costs (the cost of both building materials and construction work markedly increased), but the abundance of housing loans (for home creation and home renovation purposes) at very favourable conditions, coupled with the rather rigid supply side also resulted in marked price increases. In the first three quarters of 2021, nominal house prices increased by 16.5% compared to the same period of 2020. The extent of price rises were smaller in Budapest (around 8%), but stronger in cities and villages (18% and 20% respectively). The rate of house price inflation may have accelerated further in the fourth quarter of the year.

2.2 THE BANKING SECTOR IN 2021[2]

In the first half of 2021 credit institutions still had the opportunity to participate in the liquidity boosting programs introduced by the central bank in 2020 to mitigate the economic and financial impacts of the pandemic, while apart from the preferential loan programs and development funds provided by the central bank and the government, the robust growth in the stock of the sectors' client loans and client savings was also supported by the payment moratorium, which was maintained at broadly unchanged conditions up until the end of October 2021. In terms of profitability, however, the most important factor was the very positive development of the macroeconomic situation, because based on the improving macroeconomic parameters, the reversal of the impairment and provisioning process that took place due to significant uncertainty in 2020, could commence in 2021. Helped by this, the domestic banking sector may have reached 2.5 times higher after-tax profit (around HUF 520-530 billion) than in 2020 (HUF 207 billion) even despite the continued increase in nominal operating costs. With this, the banking sector realized around 10% return on equity, although a substantial amount of the improvement was due to developments and processes that are not lasting in their nature, and will not recur beyond 2021

The aggregate total assets of the banking sector amounted to HUF 62,000 billion by the end of 2021, which is 17% higher than the preceding year's HUF 53,056 billion, but compared to the end of 2019, the last year before the pandemic, the size of credit institutions increased by no less than 44%. The stock of gross client loans (apart from loans extended to the central government) increased by more than 12% in 2021 and reached HUF 25,200 billion by the end of the year. Within this, the stock household loans expanded by 15.6%, while that of non-financial corporate clients increased by 10.9%. The quality of the loan portfolio, which uninterruptedly improved until 2020 did not continue to improve further in 2021, but neither did it worsen significantly till the end of the year.

The stock of client deposits increased by 17% in 2021 and its volume jumped above HUF 35,000 billion. 35% of this was owned by households, which increased their stock by 14%, whereas 41.5% was owned by the non-financial corporate sector, whose deposits increased by more than 20% in 2021.

2.2.1 New mortgage loan contracts to households

Two new credit lines were introduced in 2021 that gave strong momentum to new mortgage loan contract volumes. The Subsidized Rate Home Renovation Loans were introduced in February, but disbursements gathered speed from March. Mortgage loans extended within the frame of the Green Home Programme were put on sale from October. Assisted by other family support schemes these resulted in an outstanding growth in the volume of new mortgage loan contracts: the HUF 1,401 billion volume in 2021 exceeded 2020's HUF 1,008 billion by 39%. Within this proper housing loans exhibited a growth of 40.5%, whereas home equity loans exhibited 22.7% growth compared to 2020's figures.

[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.

2.2.2 The outstanding stock of household mortgage loans

According to data published by the central bank the stock of household mortgage loans amounted to HUF 5,412 billion on December 31, 2021. The annual change in the stock is HUF 565 billion (+11.7%) compared to end-2020's HUF 4,847 billion, but a marked share of this growth is attributed to the fact that 45-50% of the portfolio were shielded by the payment moratorium introduced in the middle of March in 2020 and still existing alongside almost unchanged conditions up to the end of October 2021, meaning that on this part of the portfolio there was no principal amortization. The stock of housing loans at the end of 2021 was HUF 4,593 billion as opposed to HUF 3,995 billion at the end of 2020, which implies 15% growth. The stock of home equity loans, however, decreased even as the moratorium stood and new contracts were 23% higher than a year before: the HUF 819 billion volume at the end of 2021 was 3.8% (HUF 33 billion) short of the HUF 852 billion prevailing at the end of 2020. The share of foreign exchange denominated loans within the portfolio were hardly 0.1% at the end of 2021.

2.2.3 The market of mortgage bonds

In the course of 2021 the face value of the stock of mortgage bonds issued by the five mortgage banks residing in Hungary decreased by around 2% and thus the end-year stock of mortgage bonds outstanding was HUF 1,616 billion at face value. The most important factors behind this decrease are that the central bank already stopped purchasing mortgage bonds in its second mortgage bond purchase programme (introduced after the appearance of the coronavirus pandemic) in late 2020, that mortgage based financing that qualifies green can be taken into account favourably when calculating the mortgage financing adequacy ratio (MFAR), moreover, the limit of this indicator was not modified in 2021, October 2023 was announced as the date for its upcoming increase by the central bank. In the context of the total outstanding stock the Takarék Mortgage Bank Plc. preserved its 20% market share, based on which it is the second largest company in this market segment.

3 REPORT ON THE BANK'S BUSINESS AND FINANCIAL RESULTS

Market activity on the entire domestic mortgage bond market markedly moderated temporarily in 2021, since the central bank terminated its mortgage bond purchase programme in November, 2020. At the same time, however, the central bank indicated its intention to launch a green mortgage bond purchase programme in the future. This finally was launched on August 2, 2021 with an initial HUF 200 billion budget, and it was certainly an important development from the aspect of the Bank's business and financial environment.

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

The total assets of the Bank based on non-consolidated figures according to IFRS increased by 8.6% (i.e. by HUF 52.9 billion) in 2021, and by the end of the year its volume reached HUF 665.0 billion. Pre-tax profit, up 40.7% from 2020, amounted to HUF 2,737 million, while profit for the year reached HUF 2,745 million. The total comprehensive income for 2021 was HUF 2,252 million, significantly up from the preceding year's HUF 1,641 million.

Major indicators (HUF million)	**December 31, 2021**	**December 31, 2020**	**Change (%)**	**Change** (HUF million)
Balance sheet total	665,015	612,141	8.6%	52,874
Financial assets valued at AC and mandatorily at FVTPL*	634,964	573,880	10.6%	61,084
o/w gross loans	374,357	337,337	11.0%	37,020
o/w debt-type securities	250,536	229,366	9.2%	21,170
Financial liabilities measured at AC	585,534	538,318	8.8%	47,216
o/w debt-type securities issued	321,714	322,551	(0.3)%	(837)
Equity	68,936	66,684	3.4%	2,252
Profit/Loss before tax	2,737	1,945	40.7%	792
Profit for the year	2,745	2,373	15.7%	372
Total comprehensive income	2,252	1,641	37.2%	611
ROAA (return on average assets)	0.4%	0.5%	-	(0.1)ppt
ROAE (return on average equity)	4.0%	3.6%	.	0.4ppt

* AC: amortized costs; FVTPL: fair value through profit and loss

3.2 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, and uses the funds thus required for refinancing the mortgage debt portfolios of partners within the Bankholding Group and also that of external partners. Within the Takarék Group, the Bank is a special entity: it is able to raise funds in the form of mortgage bond or uncovered bond 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 their own mortgage bank license and thus need refinancing.

The stock of refinancing loans extended by the Bank went up by 15.5% (or HUF 44.6 billion) in 2021 and their volume at the end of the year was HUF 332.0 billion.

3.3 LENDING TO CLIENTS

The Bank discontinued extending new loans as of the second quarter of 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 segment, 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 – in line with the above – continued to decrease, sinking to HUF 42.4 billion at the end of 2021, down 15.0% from end-2020's HUF 49.9 billion. 98.8% of this stock are household loans, the volume of which decreased by HUF 7.6 billion compared to the prior year. The stock of corporate loans amounted to HUF 0.5 billlion at the end of 2021. The bulk of the household loan portfolio are mortgage loans, which implies 0.7% market share for the Bank in this segment (down from 0.9% back in 2020).

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's stock of gross credit amounted to HUF 364.6 billion at the end of the year. The value of contingent liabilities on December 31, 2021 was HUF 24.4 billion. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 389.0 billion. The full gross exposure to credit risk (including securities) amounted to HUF 676.2 billion at the end of 2021.

Claims on clients amounted to HUF 32.67 billion (this is 8.73% of the portfolio without swaps), moreover, based on already signed contracts there was a commitment for disbursing loans to the tune of HUF 0.13 billion (0.04%) at the end of 2021. Of these, 603 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.17 billion in claims with HUF 0.37 billion in impairments. HUF 30.51 billion in claims and HUF 0.13 billion in commitments was classified as Stage 1 and Stage 2 categories, with HUF 0.67 billion in impairments and provisions.

The stock of refinancing loans was HUF 332.0 billion (88.64% of the portfolio without swaps), with a minimal HUF 8.9 million in impairments.

In the interbank market the Bank had placements of HUF 0.2 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

The share of problem free (Stage 1 and Stage 2) loans was 93.38% as of December 31, 2021, consequently the share of Stage 3 loans was 6.62%.

At average impairment level there was an increase both in the entire (excl. swaps) portfolio (0.28%), and in the loan portfolio (3.19%) compared to end-2020.

3.5 SECURITIES ISSUES

In twelve public auctions last year the Bank raised HUF 24.5 billion in new funds by issuing mortgage bonds. Uncovered bonds were not issued in 2021. Developments in the domestic mortgage bond market were markedly influenced by the Green Mortgage Bond Purchase Programme (GMBPP), launched by the central bank on August 2, 2021 with an initial budget of HUF 200 billion. Since the central bank finished purchasing mortgage bonds on the primary market in the context of its second mortgage bond purchase programme in the middle of November 2020, but indicated its intention to launch a green mortgage bond purchase programme at a later date, activity on the entire domestic mortgage bond market – in lack of investors that can be taken for granted – substantially declined and resumed only after the launch of the green mortgage bond purchase programme was announced.

The Bank nonetheless continued to execute its published issuance strategy, keeping auctions practically each month offering its mortgage bonds series maturing in 2026, 2031 and 2036 to investors. It offered only small amounts at individual auctions in order to decrease and stabilize yield premia.

In October 2021, upon meeting the conditions for participation in the GMBPP, the Bank issued its first green mortgage bond series, the TZJ27NF1, selling HUF 5 billion. Supported by the central bank's purchases the average auction yield on the 6-year paper bearing a 3.50% coupon finally became 3.58%, which is a 15bp premium above government bonds with similar maturity.

Apart from the GMBPP the Bank also participates in the central bank's mortgage bond renewal program. Based on the Monetary Council's decision on July 6, 2021 in order to preserve stability on the market and decrease renewal risks the Bank purchases mortgage bonds to renew those series in its portfolio that expire in 12 months (Renewable Mortgage Bonds). It was also in this program that the Bank announced the issuance of the second tranche of its TJ26NF02 series in November 2021 and sold a total of HUF 7 billion.

Due to the above transactions HUF 4.5 billion, HUF 6 billion, HUF 2 billion and HUF 12 billion mortgage bonds (at face value) were issued by the Bank in the respective quarters of 2021. These were exclusively fixed rate bonds.

Also in 2021 the Bank made an EUR 500 thousand repurchase from its FJ22ZF01 series denominated in Euro. One mortgage bond series expired last year; this was the fixed rate FJ21NF01 series close to HUF 21 billion in volume.

Influenced by the above transactions, the total face value of mortgage bonds issued by the Bank and still in circulation was HUF 323 billion at the end of 2021.

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 bond coverage the Bank verified, upon disbursement of the loan, whether the conditions for ordinary collateral were met.

The net value of ordinary collateral covering mortgage bonds issued by the Bank was HUF 447.1 billion as of December 31, 2021, 16.7% above the figure prevailing at December 31, 2020 (HUF 383.1 billion) mostly due to the dynamic increase of the stock of refinancing loans. The increase in ordinary collateral as well as the moderate level of net mortgage bond issuances both contributed to the fact that at the end of the third and fourth quarters the stock of assets involved as supplementary collateral was zero.

Value of mortgage bonds and assets involved as collateral

HUF million	December 31, 2021	December 31, 2020	Change
Outstanding mortgage bonds in circulation			
Face value	323,019	319,540	1.1%
Interest	46,377	46,389	0.0%
Total	**369,396**	**365,929**	**0.95%**
Value of ordinary collateral			
Principal	348,868	311,882	11.9%
Interest	98,269	71,314	37.8%
Total	**447,137**	**383,196**	**16.7%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	-	33,096	-
Mortgage bonds	-	4,662	-
Total	**-**	**37,758**	**-**

As of 31 December 2021, the present value of ordinary collateral was HUF 335.6 billion and the present value of mortgage bonds was HUF 304.8 billion, thus the present value of collateral amounted to 110.09% 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 bonds in circulation was 108.00%, and the net ordinary and supplementary collateral interest to the unpaid interest on mortgage bonds in circulation was 211.89% as of December 31, 2021.

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

In order to mitigate the negative economic and financial impacts of money market turbulences caused by the coronavirus pandemic the MNB announced the introduction of long-term covered refinancing facility at fixed interest rates on March 24, 2020 and kept weekly tenders therefter. It started to gradually phase out the Programme from January 2021 by reducing the fresh liquidity made available, until the programme was finally terminated in June. The Bank, taking on an active role in these tenders, was successful in building 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. All this had a major influence on the Bank’s business and financial activities, its balance sheet structure and its profit.

As of 31 December 2021, the Bank’s balance sheet total according to non-consolidated IFRS figures amounted to HUF 665.0 billion, 8.6% above the end-2020 figure of HUF 612.1 billion.

Balance sheet items (HUF million)	December 31, 2021	December 31, 2020	Change (%)	Change (HUF million)
Assets				
Cash, cash balances at central banks and other demand deposits	229	1,499	(84.7)%	(1,270)
Financial assets held for trading	2,359	103	-	2,256
Financial assets at fair value through other comprehensive income	26,242	34,889	(24.8)%	(8,647)
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	634,964	573,880	10.6%	61,084
Derivatives – Hedge accounting	-	926	-	-926
Tangible assets	95	125	(24.0)%	(30)
Intangible assets	203	208	(2.4)%	(5)
Tax assets	512	348	47.1%	164
Other assets	411	163	152.1%	248
Total assets	**665,015**	**612,141**	**8.6%**	**52,874**
Liabilities				
Financial liabilities held for trading	2,309	88	-	2,221
Financial liabilities designated at fair value through profit or loss	6,121	6,484	(5.6)%	(363)
Financial liabilities measured at amortised cost	585,534	538,318	8.8%	47,216
Derivatives – Hedge accounting	1,112	284	-	828
Provisions	28	116	(75.9)%	(88)
Tax liabilities	147	4	-	(143)
Other liabilities	828	163	-	665
Total liabilities	**596,079**	**545,457**	**9.3%**	**50,622**
Equity				
Share capital	10,849	10,849	0.0%	0
Share premium	27,926	27,926	0.0%	0
Accumulated other comprehensive (loss)/income	(233)	260	-	(493)
Retained earnings	26,417	24,319	8.6%	2,098
Other reserves	1,439	1,164	23.6%	275
Treasury shares(-)	(207)	(207)	0.0%	0
Profit for the year	2,745	2,373	15.7%	372
Total equity	**68,936**	**66,684**	**3.4%**	**2,252**
Total liabilities and equity	**665,015**	**612,141**	**8.6%**	**52,874**

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 26.2 billion at the end of 2020, 24.8% 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%.

Within this class of assets there was a rearrangement in the stock of debt-type securities between 2020 and 2021. As a consequence, the stock of government bonds decreased by 88.7% compared to the end of the preceding year (down to HUF 3.6 billion from HUF 31.9 billion). Bonds of credit institutions, which amounted to HUF 3 billion at the end of 2020 reduced to zero. At the same time, however, the stock of discount Treasury bills increased by HUF 22.6 billion.

3.6.2 Financial assets valued at amortized costs costs and non-trading financial assets mandatorily at fair value through profit or loss

The volume of financial assets valued at amortized costs increased almost by 10.6% in 2021, thus the volume amounted to HUF 635.0 billion by the end of the period. The gross stock of debt-type securities within this increased by 9.2% and stood at HUF 250.5 billion at the end of the year. 91% of the total securities portfolio is made up of government bonds, the stock of which was HUF 227.9 billion at the end of 2021.

Within this class of assets the other major component is the stock of gross loans. This increased by 11% in the course of 2021, rising to HUF 374.4 billion by the end of the year.

The stock of interbank deposits and claims on central bank increased from HUF 7.2 to HUF 10.8 billion, which is 48.6% increas in one year.

3.6.3 Financial liabilities valued at amortized costs

Financial liabilities valued at amortized costs take up 88% of the Bank's total liabilities. Their volume at the end of 2021 was 8.8% higher than a year before, thus reaching HUF 585.5 billion. Within these liabilities it is debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share (54.9%). The balance sheet value of mortgage bonds in circulation was HUF 321.7 billion at the end of 2021, down by a marginal 0.3% from 2020. Yet, in the course of 2021 the stock of debt also increased significantly, reflecting the growth in long-term fixed loans from the MNB (through LTRO).

3.6.4 Equity, capital adequacy

Shareholders' equity amounted to HUF 68.9 billion at the end of 2021, up HUF 2.3 billion (or 3.4%) from the end of 2020.

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 2021.

3.6.5 Off balance sheet items

The value of off balance sheet contingent liabilities was HUF 24.4 billion at the end of 2021, 10.3% 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 at the end of 2020 stood at only HUF 22.1 billion.

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

P&L items (HUF million)	2021	2020	Change (%)	Change (HUF million)
Interest income	14,704	11,449	28.4%	3,255
Interest expense	(10,456)	(8,237)	26.9%	(2,219)
Net interest income	**4,248**	**3,212**	**32.3%**	**1,036**
Fee and commission income	589	688	(14.4)%	(99)
Fee and commission expense	(620)	(590)	5.1%	(30)
Net fee and commission income	**(31)**	**98**	**(131.6)%**	**(129)**
Profit/(Loss) from foreign exchange transactions	-	100	-	(100)
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	186	492	(62.2)%	(306)
Gains on financial assets and liabilities held for trading	1	672	-	(671)
Gains on non-trading financial assets mandatorily at fair value through profit net	438	35	-	403
Profit/Loss from hedge accounting	(76)	(878)	(91.3)%	802
Gains on financial assets and liabilities designated at fair value through profit or loss	238	290	(17.9)%	(52)
Net trading result	**787**	**711**	**10.7%**	**76**
Gains on derecognition of non-financial assets, net	(4)	157	-	(161)
Other operating income	439	530	(17.2)%	(91)
Other operating expense	0	(16)	-	16
Operating income, net	**5,439**	**4,692**	**15.9%**	**747**
Provisions	3	(3)	-	6
Impairment on financial assets not measured at fair value through profit or loss	(224)	(133)	69.0%	(91)
Impairment on non-financial assets	-	-8	-	8
General and administrative expenses	(2,419)	(2,366)	2.2%	(53)
Modification (Loss), net	(62)	(237)	(73.8)%	175
Profit/Loss before tax	**2,737**	**1,945**	**40.7%**	**792**
Income tax benefit	8	428	(98.1)%	(420)
Profit/Loss for the year	**2,745**	**2,373**	**15.7%**	**372**
Comprehensive income				
Profit/Loss for the year	2,745	2,373	15.7%	372
Other comprehensive income	(493)	(732)	(32.7)%	239
Items that will not be reclassified to prof-it or loss	9	9	0.0%	-
Fair value changes of equity instru-ments measured at fair value through other comprehensive income	-	-	-	-
Income tax benefit relating to items that will not be reclassified	9	9	0.0%	-
Items that may be reclassified to profit or loss	(502)	(741)	(32.3)%	239
Hedging instruments	183	3	-	180
Debt instruments at fair value through other comprehensive income	(685)	(744)	(7.9)%	59
Income tax relating to items that may be reclassified to profit or (-) loss	-	-	-	-
Total comprehensive income for the year	**2,252**	**1,641**	**37.2%**	**611**

The Bank's pre-tax profit was HUF 2.7 billion in 2021, 40.7% above 2020's HUF 1.9 billion. Full-year profit was HUF 2.4 billion in 2021 (up from 2020's HUF 2.4 billion). Total comprehensive income was also higher last year than in 2020: it amounted to HUF 2.3 billion as opposed to HUF 1.6 billion a year earlier.

3.7.1 Net interest income

Net interest income was HUF 4.2 billion in 2021 (HUF 3.2 billion in 2020) as a result of HUF 14.7 billion in income (up 28.4% from 2020) and HUF 10.5 billion in expenses (up 26.9% from 2020). In sum, net interest income was HUF 1 billion (32.3%) higher in 2021 than in the preceding year.

With respect to interest income the HUF 3.3 billion increase in the volume of interest interest income of financial assets valued at amortized costs and non-trading financial assets mandatorily at fair value through profit or loss was the most decisive factor. Its value was HUF 13.3 billion in 2021 (HUF 10 billion in 2020).

Interest expenses were 26.9% higher in 2021 than in 2020. Within this interest expense on financial liabilities valued at amortized costs have the most important role: this amounted to HUF 9.5 billion in 2021, HUF 2 billion above that of the preceding year's HUF 7.4 billion.

3.7.2 Net fees and commissions

In 2021 the Bank achieved a negative balance of HUF 31 million on fees and commissions as opposed to a surplus of HUF 98 million back in 2020. Income from fees and commissions reached HUF 589 million (down 14.4% from 2020), due to unfavourable changes in the fee and commission income from refinanced mortgaged loans as well as lower income from valuation. Expenses amounted to HUF 620 million in 2021 (up from 2020's HUF 590 million). This growth reflects higher fees paid to agents, whereas the costs on valuation and Treasury activity were somewhat smaller than in 2020.

3.7.3 Net trading result

The balance of net trading results amounted to HUF 787 million in 2021, which is 10.7% rise compared to 2020. This is mostly explained by gains on financial assets kept for non-trading purposes valued mandatorily at fair value through profit and loss.

3.7.4 Net operating income

Similarly to the net trading result the net operating income of the Bank also improved in 2021. The HUF 5.4 billion profit last year is 15.9% higher than the preceding year's HUF 4.7 billion.

3.7.5 General and administrative expenses

The general and administrative expenses of the Bank increased by only 2.2% (i.e. by HUF 53 million) in 2021, reaching a level of HUF 2.419 billion overall compared to HUF 2.366 billion in 2020. Whereas personnel costs (up by HUF 108 million) and consultancy fees (up by HUF 245 million) substantially increased, fees for other prudential activities and the Compensation and Resolution Funds (down by HUF 68 million) and SLA expenditures (down by HUF 302 million) were sharply reduced.

Operating costs (HUF million)	2021	2020	Change (%)	Change (HUF million)
Personnel costs	315	207	52.2%	108
Marketing and advertising	6	1	-	5
General and administrative costs	96	93	3.2%	3
Rental fees	21	19	10.5%	2
Depreciation of tangible assets	28	33	(15.2)%	(5)
Amortisation of intangible assets	22	25	(12.0)%	(3)
Consultancy fees	430	185	132.4%	245
Maintenance costs	423	350	20.9%	73
Sector-specific tax on credit institutions	0	98	-	(98)
Other taxes	185	177	4.5%	8
Insurance fees	7	5	40.0%	2
IT costs / Database system usage	78	60	30.0%	18
Supervisory fees	52	38	36.8%	14
Fees for other prudential activities, compensation and resolution funds	463	531	(12.8)%	(68)
SLA service costs	203	505	(59.8)%	(302)
Other non-specified costs	90	39	130.8%	51
Total costs	**2,419**	**2,366**	**2.2%**	**53**

3.7.6 Impairment and provisioning

The net balance of impairment and provisioning was HUF 221 million in 2021.

3.7.7 Modification (Loss)/gains, net

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 62 million loss in 2021.

3.7.8 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 2.7 billion in 2021 (it was HUF 1.9 billion in 2020).

4 LIQUIDITY MANAGEMENT

Due to its special legal mortgage bank status the Bank is not allowed to collect client deposits, hence among its liabilities the components with the highest weight are mortgage bonds and interbank liabilities. In the course of 2021 the weight of long-term (3- and 5-year) central bank refinancing sources originating from the MNB's long-term covered refinancing operations was also decisive (at the end of July 2021 the central bank finished these operations, new deals are not available, but the outstanding stock remains intact).

As a member of Takarék Group the Bank covers its liquidity positions mostly against other entities within Takarék Group. The Bank is entitled to cover its amount of refinanced and self-issued loans by issuing mortgage bonds only to the extent of capital, which can be taken into account in the coverage 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 bonds, should mostly be financed from uncovered liabilities. Also due to internal regulations the Bank maintains 2% excess coverage.

The credit rating of mortgage bonds issued by the Bank is performed by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank's mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. No change has taken place in the rating since then.

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 in 2018 - are primarily influenced by developments in the stock of refinanced loans, and the level of activity in primary mortgage 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 second mortgage 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 bonds increased by 1.1% (HUF 3.5 billion) rising from a face value of HUF 319.5 billion at the end of 2020 to HUF 323 billion by the end of 2021. In the past year the Bank raised HUF 24.5 billion in new funds exclusively in the form of mortgage bond issuances through stock market auctions with the involvement of the entire range of dealers. In the period under review there was one repurchase from an Euro denominated series to the tune of EUR 500 thousand. The total face value of expiring series (one) was HUF 20.9 billion in 2021.

No uncovered issuances were made in 2021.

The stock of covered loans taken from the central bank amounted to HUF 235.5 billion at the end of the year (10.7% above the end-2020 volume), while interbank liabilities towards the parent bank amounted to HUF 25.4 billion.

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

The Bank is a member of the Central Organization of Integrated Credit Institutions (COICI) and the Takarék Group.

Taking into account the MBH's regulatory framework MTB, which performs the governing functions of Takarék Group, defined the general risk taking principles, the acceptable risk types, the tools for managing and measuring risks and the organization of risk management in its Risk Policy and Risk Strategy, which was also approved by the COICI.

Risk Policy includes the following:
- risk taking principles;
- guidelines and methods to identify significant risks;
- the setup of risk management with the presentation of the organization.

Risk Strategy includes the following:
- the definition, identification, the extent and severity of risks;
- the short presentation of the external environment and the business strategy;
- the presentation of the goals of strategic risk management;
- the presentation of risk appetite indicators, the recommended limits and alert levels;
- the short presentation of projects involving major risk control.

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, moreover with MBH regulations.

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 result 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 the actual macroeconomic model. From the second quarter of 2021 the macro correction parameters used to calculate group-level impairment needs were upgraded to reflect the new macroeconomic projections set in the circular of the central bank issued in the first quarter of 2021. These projections depicted favourable economic developments, which, on its own, would reduce the volume of impairment. To offset for this, a so-called “Management Overlay” correction was introduced, which ensures transaction-level correction based on the appropriate setting of the expected default rate. The joint impact of the MNB macro correction and the Management Overlay was a minimal move in the volume of impairment.

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 2021.

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 bonds and the long-term central bank financing sources (exclusively 3- and 5-year maturity loans) qualify as decisive items.

Since in the framework of LTRO the central bank extends covered credit to market players, for the Company it is the mismatches in the maturity structure of mortgage bonds and the stock of refinanced loans (and the still outstanding own credit), as well as the potential loss on bonds locked for MNB as the beneficiary, where the liquidity risk to be addressed comes from.

The Bank prepares its liquidity plans in close cooperation with MTB's relevant risk departments. This is based on expectations derived from different scenarios taking into account the possible effects of stress situations. Within the Bank's collateral asset pool the excess coverage (which reduces liquid assets) is constrained by internal limits, moreover, under internal regulations the Bank keeps up a liquidity buffer enough to cover cumulated outflows on a 180-day horizon, hence its liquid assets secure sufficient reserves to cover potential risks.

5.4 EXCHANGE RATE RISK

The Bank is a specialized credit institution, which significantly narrows the scope of business activites, 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 the analysis of stress scenarios and sensitivity analyses 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 bonds, swap deals as well as adjusting mortgage 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 2021 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 departments 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-evaluation 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: business and mortgage loan extending and managing functions as well as group control, supervision and support functions are performed by the MTB. The Bank's organizational setup was unchanged in 2021, the full-time equivalent number of employees was 14 at the end of 2021.

7 PROTECTION OF ENVIROMENT

Although the Bank does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environmentally conscious 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 behavior.

The Bank has a Green Mortgage Bond Committee (GMBC), whose members are as follows: the chief executive officer (CEO), the Deputy CEO responsible for risk management and the leader of the capital market, the refinancing, the ALM, the collateral recording and the collateral management businesses. The main duties of the GMBC are: (i) to make decisions about the green qualification of new and existing collaterals and (ii) to regularly review the availability of green collateral behind the issued green mortgage bonds. The Bank issued its first green mortgage bond (Series TZJ27NF1) on October 27, 2021 in a total amount of HUF 5 billion. Further issuances can be expected ion 2022, the first of which is scheduled to February (see the section on post balance sheet date events).

In November 2020 the Bank joined the Energy Efficient Mortgage Inititative of the European Mortgage Federation.

8 OTHER SERVICES PROVIDED BY THE AUDITING COMPANY

For miscellaneous other services (preparing for ESG, ESG roadmap) the auditing company invoiced a fee of HUF 13.335.000 for the Bank in 2021.

9 POST BALANCE SHEET DATE EVENTS

Auction

The Bank organized the auction of the third tranche of TJ25NV01 Takarek mortgage (covered) bond (maturity: 26.11.2025, interest rate: variable/current annual interest: 3.67%) on 24 January 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 10,060 million, the total nominal value issued was HUF 7,200 million, while the average selling price (net) was 100.4153%.

The Bank organized the auction of the third tranche of TJ26NF02 Takarek mortgage (covered) bond (maturity: 22.12.2026, interest rate: fix: 1.75%) on 8 February 2022. The result of the auction was the following: the total offered (nominal) value was HUF 3,000 million, the total nominal value of valid bids was HUF 7,970 million, the total nominal value issued was HUF 12,520 million, while the average selling price (net) was 84.5527%.

At the end of February the Bank arranged a double green mortgage bond issue transaction. It offered to the investors the second tap of TZJ27NF1 originally 6 year tenor, with 5 year tenor and 3.5 coupon total offered (nominal) value of HUF 5 billion green covered bond and the first tap of TZJ32NF1 10 year tenor, with 5.75% coupon and total offered (nominal) value of HUF 3 billion. As a result of the auctions, the Bank issued 7.45bn and 1.97bn forint nominal amounts, respectively.

European Energy efficient Mortgage Label

The Bank as the first Hungarian Mortgage Bank joined the family of the European Energy efficient Mortgage Label (EEML) on 21st of February 2022. EEML is a clear and transparent quality label for consumers, lenders and investors, aimed at identifying energy efficient mortgages (EEM) in lending institutions' portfolios, which are intended to finance the purchase/construction and/or renovation of both residential (single family & multi-family) and commercial buildings, with a focus on building energy performance. The EEML is intended as a global benchmark for EEM from the perspective of lending institutions and institutional investors. The membership is extremely increase the reputation of the Bank. (The Hungarian Central Bank is also among the members of the EEML Advisory Council.

Issued Bond by Hungarian Bankholding Ltd.

Based on paragraph 20/H (1) – effective from October 29, 2021 – of Act 135 of 2013 on the modification of the integration of cooperative credit institutions and select economic legislation the Integration Organization – in order to meet the goals of the integration of credit institutions – is obliged to invest its assets until January 31, 2022 into bonds, to be issued by the financial holding parent company, i.e. the Hungarian Bankholding Ltd. (which has supervisory control influence over the Integration Organization) for 20-year maturity, paying a coupon that matches the average YTM of applicable government bonds as published on the website of AKK Ltd. (State Debt Management Centre) provided that Hungarian Bankholding Ltd. is obliged to issue these bonds at a value, which is set in the inquiry of the Integration Organization according to legal provisions.

In its resolution made on January 20, 2022 the general meeting of Hungarian Bankholding Ltd. ordered to the bond issuance. Based on the resolution of the general meeting the MBH 2042/A bond series (ISIN: HU0000361282) was issued and subscribed by the Integration Organization within the statutory deadline. Hence, as of January 31, 2022 the Integration Organization's securities account was credited by 3,794 pieces of MBH 2042/A bonds bearing a face value of HUF 50 million each, while the account of Hungarian Bankholding Ltd., the issuer, was credited by HUF 188,220.34 million as the value of the bonds sold at the 99.22% subscription price.

Russian / Ukrainian conflict

After the closing of Q4 2021, the Russia conflict of -Ukraine meant an important change in the economic environment in late February 2022. Geopolitical conflicts contribute to the uncertainty of growth prospects. The favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures, and these trends have been exacerbated by the war.

The conflict, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% in February after 5.1% in January. Domestic price pressures rose to 8.3% yoy in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.

In response to developments since the end of February, Hungarian National Bank (MNB) raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the O/N (overnight) deposit remained unchanged. MNB announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (the Hungarian National Bank raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). High inflation could dampen strong economic growth this year for both the domestic and European economies.

The Ukrainian-Russian war conflict did not cause any significant direct business disadvantages for Takarék Mortgage Bank, nor for the other member banks of Hungarian Bankholding. Both the Bank's capital position and its liquidity position are stable, have significant reserves and are well managed. There was no material direct banking risk in either the retail or the corporate client segment. Interbank money market limits towards the countries concerned were immediately closed (no exposure). Hedge monitoring of counterparty positions was confirmed (no counterparty positions below the hedging limit).

None of the Bankholding's member banks had any significant open foreign exchange positions, and the hectic movements in foreign exchange rates did not cause any direct losses.

The Strategic Analysis Centre of Hungarian Bankholding continuously monitors and analyses relevant changes in the money and capital markets. The exchange rate volatility of the forint has increased in line with the other regional currencies. Despite this, the Bank has not experienced any significant retail demand for foreign exchange swaps or foreign currency borrowing compared to normal business. Possible changes in asset prices (including hedged financial assets and real estate) are also in focus of monitoring.

All members of Bankholding comply with EU and US sanctions lists, including the requirements for exclusion from the SWIFT system. However, the exclusion of a significant proportion of Russian banks from SWIFT makes trade and settlement relations more difficult for Hungarian companies with Russian relationship.

In connection with the Ukrainian-Russian war conflict, the direct and indirect affected clients have been detected at the Hungarian Bankholding level, and their follow-up is carried out by members of Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based on the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

In case of Takarek Mortgage Bank: The Bank does not have a significant corporate portfolio, in case of retail portfolio, the perceived increases in risk observed during routine monitoring processes should be individually identified and managed at the time of occurrence.