TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 2020

Budapest, April 6, 2021

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

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

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

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

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

Ownership structure of Takarék Mortgage Bank Plc.:

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

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

In 2013, the Bank managed several acquisitions, thereby broadening the range of activities provided by its subsidiaries and hence the Group. These included the acquisition of Diófa Alapkezelő Zrt. (Diófa Fund Management Ltd.), the purchase of the Díjbeszedő Operations and Services Limited Liability Company (DÜSZ), which came into being after a secession from Díjbeszedő Holding Ltd. (DBH), the Díjbeszedő Faktorház Plc. (DBF) getting under the ownership of DÜSZ in the process of the mentioned secession, the purchase of DíjNET Ltd., Díjbeszedő Informatikai Ltd. (DBIT), and a certain share of ownership in the Magyar Posta Befektetési Zrt. (Hungarian Post Investment Ltd.). The Bank sold these ownership shares to the MTB Bank of Hungarian Savings Cooperatives Ltd. (hereafter "MTB") in December 2017.

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

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

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

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

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

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

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

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

In the revised 5-year strategy (2017-2021) 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.

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

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

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

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

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

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

2 THE MACROECONOMIC ENVIRONMENT IN 2020

2.1 THE HUNGARIAN ECONOMY IN 2020[1]

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

**Projection for 2020*
Sources: KSH, MNB, NGM

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

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

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

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

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

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

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

The number of newly built dwellings in 2020 increased by 33.5% compared to 2019, but the number of new building permits and simplified notifications for the construction of new dwellings fell a substantial 35.8% last year. Budapest had a leading role in this (-47.7%), while the modest decrease was observed in villages (-14%). The 33.5% growth in the number of newly built dwellings means that 28,208 flats were reported to have been completed last year as opposed to 21,127 flats in 2019. Again, villages were top performers (45% growth), partly owing to the so-called rural family home creation scheme, which was launched in the second half of 2019. There was also robust growth in cities (42%), but growth in Budapest markedly decelerated (to 8.6%) as in the wake of the pandemic investment driven real estate purchases effectively vanished. 52.6% of the newly built 28,208 flats was constructed by entrepreneurs, whereas 47.4% by private persons, which is a noticeable decrease in the case of the former (down from 58%), but a marked increase in the case of the latter (up from 42%) compared to 2019.

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

2.2 THE BANKING SECTOR IN 2020[2]

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

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

2.2.1 Mortgage loans of households

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

2.2.2 Stock of household mortgage loans

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

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

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

2.2.3 The market of mortgage covered bonds

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

3 REPORT ON BUSINESS ACTIVITIES

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

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

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

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

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

3.2 LENDING

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

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

3.3 REFINANCING

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

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

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

3.4 PORTFOLIO QUALITY, IMPAIRMENT

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

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

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

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

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

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

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

3.5 SECURITIES ISSUES

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

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

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

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

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

Value of mortgage covered bonds and assets involved as collateral

HUF million	December 31, 2020	December 31, 2019	Change
Outstanding covered mortgage bonds in circulation			
Face value	319,540	266,746	19.8%
Interest	46,389	30,956	49.8%
Total	**365,929**	**297,702**	**22.9%**
Value of ordinary collateral			
Principal	311,882	252,187	23.7%
Interest	71,314	57,136	24.8%
Total	**383,196**	**309,323**	**23.9%**
Value of assets involved as supplementary collateral			
Government and Hungarian Development Bank bonds	33,096	45.552	-27.3%
Mortgage bonds	4,662	-	-
Total	**37,758**	**45,552**	**-17.1%**

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

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

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

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

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

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

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

3.6.1 Financial assets at fair value through other comprehensive income

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

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

3.6.2 Financial assets valued at amortized costs

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

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

3.6.3 Financial liabilities valued at amortized costs

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

3.6.4 Equity, capital adequacy

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

3.6.5 Off balance sheet items

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

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

P&L items (HUF million)	2020	2019	Change (%)	Change (HUF million)
Interest income	11,449	10,261	11.6%	1,188
Interest expense	(8,237)	(7,698)	7.0%	(539)
Net interest income	**3,212**	**2,563**	**25.3%**	**649**
Fee and commission income	688	591	16.4%	97
Fee and commission expense	(521)	(436)	19.5%	(85)
Net fee and commission income	**167**	**155**	**7.7%**	**12**
Dividend income	0	0	-	-
Forex transactions	100	(10)	-1100.0%	110
Profit/Loss on derecognition of financial assets and liabilities not valued at fair value through profit and loss	492	423	16.3%	69
Profit on financial assets and liabilities held for trading purposes	672	2,319	-71.0%	(1,647)
Profit/Loss on non-traded financial assets at fair value mandatorily through profit and loss	0	0	-	-
Profit/Loss arising from hedging operations	(878)	(913)	-3.8%	35
Profit/Loss on financial assets and liabilities at fair value through profit and loss	290	147	97.3%	143
Net trading result	**676**	**1,966**	**-65.6%**	**(1,290)**
Profit/Loss on the derecognition of non-financial assets	157	41	282.9%	116
Net other operating revenue	530	787	-32,7%	(257)
Net other operating expense	(16)	(8)	100.0%	(8)
Operating income	**4,726**	**5,504**	**-14.1%**	**(778)**
Provisioning and deprovisioning	(3)	14	-121.4%	(17)
Net depreciation of financial assets and liabilities not valued at fair value through profit and loss	(167)	380	-143.9%	(547)
Net depreciation of non-financial assets	(8)	(121)	-93.4%	113
Operating costs	(2,366)	(3,337)	-29.1%	971
Profit/Loss on reclassification	(237)	6	-4050.0%	(243)
Profit/Loss before tax	**1,945**	**2,446**	**-20.5%**	**-501**
Income tax	428	(306)	-239.9%	734
Profit/Loss on discontinued activities	0	0	-	0
Profit/Loss for the period	**2,373**	**2,140**	**10.9%**	**233**
Comprehensive income				
Profit/Loss for the year	2,373	2,140	10.9%	233
Other comprehensive income	(732)	718	-201.9%	(1,450)
Items not reclassifiable as income	9	9	0.0%	0
Changes in the fair value of ownership-type instruments at fair value through other comprehensive income	0	0	-	0
Income tax on not reclassifiable items	9	9	0.0%	0
Items reclassifiable as income	(741)	709	-204.5%	(1,450)
Cash-flow hedging transactions	0	0	-	0
Hedging instruments	3	(186)	-101.6%	189
Debt-type instruments at fair value through other comprehensive income	(744)	895	-183.1%	(1,639)
Investments assets held for sales purposes	0	0	-	0
Corporate tax on items reclassifiable as income	0	0	-	0
Total comprehensive income	**1,641**	**2,858**	**-42.6%**	**(1,217)**

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

3.7.1 Net interest income

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

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

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

3.7.2 Net fees and commissions

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

3.7.3 Net trading result

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

3.7.4 Net operating income

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

3.7.5 Operating expenses

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

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

3.7.6 Impairment and provisioning

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

3.7.7 Profit/Loss due to reclassification

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

3.7.8 Pre-tax profit

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

4 LIQUIDITY MANAGEMENT

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

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

Effective from March 28, 2019 mortgage covered bonds issued by the Bank are rated by S&P Global (currently at BBB with stable outlook). On February 28, 2020 S&P improved the outlook on the credit rating of the Bank's covered mortgage bonds to positive, since it has also done so in the case of Hungary's long-term sovereign debt. However, due to mounting risks toward emerging markets following the outbreak of the coronavirus pandemic, the outlook on Hungary's sovereign debt rating was cut back to stable on May 12, 2020, and a similar step followed in relation to the Bank's mortgage covered bond rating.

Developments in the structure of the Bank's liabilities

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

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

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

No unsecured bond issuances took place in 2020.

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

5 RISK MANAGEMENT PRINCIPLES

5.1 RISK MANAGEMENT POLICY

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

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

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

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

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

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

The Bank considers prudent risk taking as a vital value.

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

5.2 CREDIT RISK

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

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

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

5.3 LIQUIDITY AND MATURITY RISK

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

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

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

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

5.4 EXCHANGE RATE RISK

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

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

5.5 INTEREST RATE RISK

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

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

5.6 OPERATIONAL RISK

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

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

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

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

6 ORGANIZATION CHANGES AND HEADCOUNT

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

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

7 PROTECTION OF ENVIROMENT

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

8 OTHER SERVICES PROVIDED BY THE AUDITING COMPANY

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

9 POST BALANCE SHEET DATE EVENTS

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

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

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

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

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

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

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

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

Budapest, April 6, 2021

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