TAKARÉK MORTGAGE BANK

TAKARÉK MORTGAGE BANK PLC.

BUSINESS REPORT FOR 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 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

Shareholder	December 31, 2021		December 31, 2020	
	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 operatiónal 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.