

# Takarék Mortgage Bank Co. Plc.

## Investor presentation 2021 H2

5th April, 2022



This presentation is to support the understanding of the underlying financial performance of TakarékJelzálogbank. It serves as an accompanying presentation for the H2 2021 Flash Report.



## **Business and earnings KPIs – summary**

**Business environment**

**Profit and Loss developments, Balance sheet**

**Refinanced portfolio, Own originated loans**

**Mortgage bond issuance**

**Green refinancing, ESG project**

**Abbreviations**

**Disclaimer**

- Takarék Mortgage Bank had a successful financial year. In 2021, the Bank **strengthened its second position in the Hungarian mortgage market**.
- The **profit before tax** reached HUF 2.7 billion, an increase of HUF 792 million (+40.7% y/y) compared to 2020. **Total assets** increased by HUF 52.9 billion (+8.6% y/y), and amounting to HUF 665.0 billion at the end of 2021.
- **Net interest income** reached HUF 4.2 billion, **an increase of 32.3%** (HUF 1.0 billion) **compared to 2020**.
- As a result of strict cost management, operating expenses increased by only 2.2% (HUF 53 million) in 2021, mainly due to wage inflation.
- The Bank's **return on equity** (ROAE) reached **4.0%**, while the **cost to income ratio** (CIR) was **44.5%**.
- As of December 31, 2021, the stock of refinancing loans increased by 15.5% (by HUF 44.6 billion), to HUF 332.0 billion compared to the previous year.
- Based on the Bank Group's strategy, active new customer lending function was provided by the Group's other banks from H2 of 2018. According to the strategy, the Mortgage Bank does not provide customer lending, however the remaining stock of customer loans were amortized as scheduled from HUF 49.9 billion at the end of 2020 to HUF 42.4 billion by the end of 2021 (-15.0% y/y).
- The Bank issued mortgage bonds with a total nominal value of HUF 24.5 billion in twelve public auctions in 2021. The Bank issued **its first green mortgage bond** with HUF 5 billion nominal value in October 2021.
- 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 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 the outstanding Mortgage Bond.
- S&P covered bond rating: BBB / stable outlook since June 3, 2021. Last review took place in October 2021, the rating was kept unchanged.

Key figures		
<b>Profit before tax</b> <b>HUF 2,7 bn</b> 40,7% ; 42,9%	<b>Total assets</b> <b>HUF 665,0 bn</b> 8,6% ; 3,3%	<b>Equity</b> <b>HUF 68,9 bn</b> 3,4% ; 2,1%
<b>Operating income, net</b> <b>HUF 5,4 bn</b> 15,9% ; 18,6%	<b>GAE*</b> <b>HUF 2,4 bn</b> 2,2% ; 20,3%	<b>Provision and impairment</b> <b>-HUF 0,2 bn</b> 54,0%-pt ; -120,5%-pt
<b>ROAE</b> <b>4,05%</b> 0,4%-pt ; 1,8%-pt	<b>ROAA</b> <b>0,43%</b> -0,1%-pt ; 0,2%-pt	<b>CIR</b> <b>44,48%</b> -6,0%-pt ; 0,6%-pt

KPI	
↑	value
↑	y/y
↑	h/h



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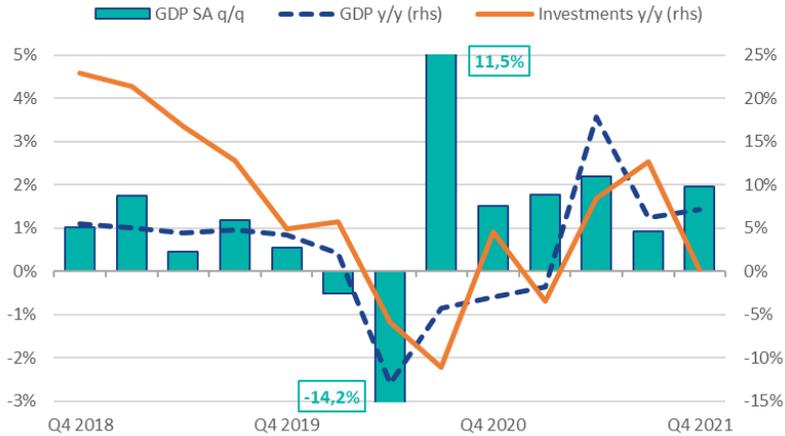
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## Economic growth, investments



**ROBUST GROWTH WITH RISING UNCERTAINTIES:** following the previous year's contraction the Hungarian economy expanded by above 7% in 2021, but from the second half of the year supply constraints started to make their mark on economic performance and a fiscal impulse was needed for growth to accelerate in Q4. Strong price pressures as well as geopolitical risks are negative to economic prospects in 2022, hence GDP growth may be substantially lower this year than it was in 2021.

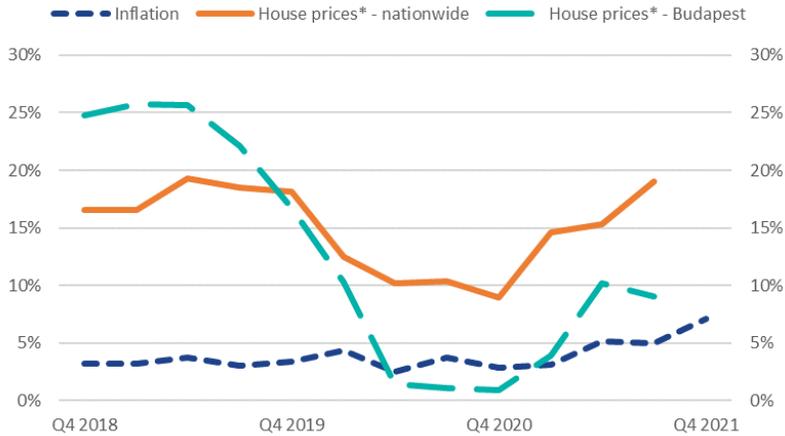
**SEARCH FOR DIRECTION IN THE HOUSING MARKET:** the number of newly built dwellings was 30% less in 2021 than a year before, in the second half of the past year even the number of transactions stalled. The number of building permits increased, but due to construction slippages it won't be realized in the number of newly built flats soon.

## Housing market indicators (4-quarter rolling data)



\* According to Duna House estimates

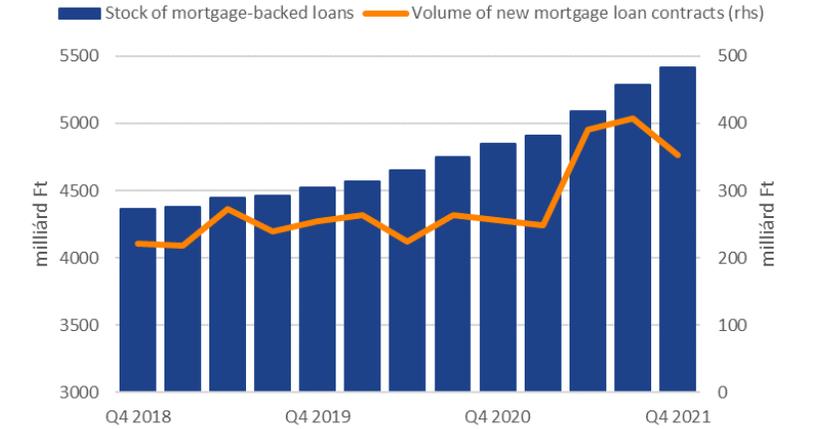
## Inflation, house prices: annual change



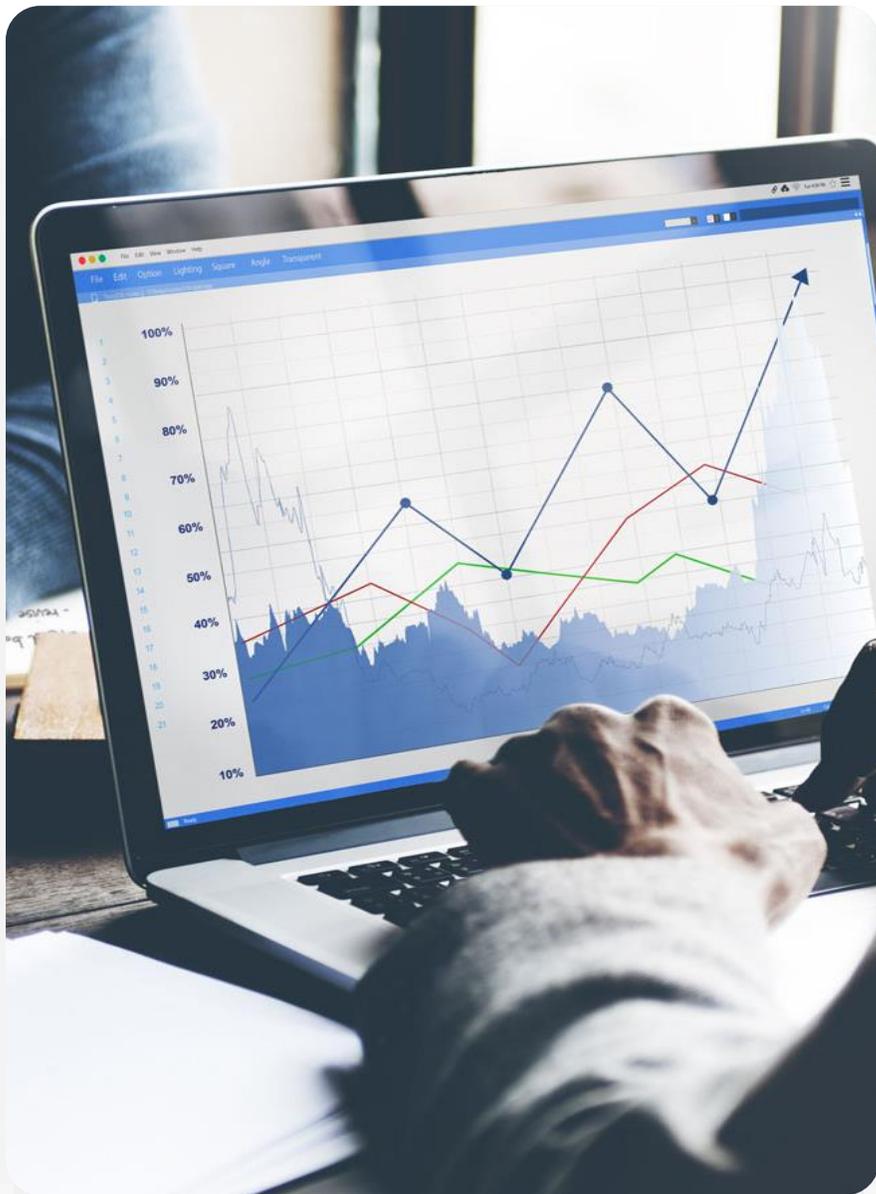
**PRICE PRESSURES STILL STRONG:** inflation markedly strengthened in the second half of 2021, due to the wide range of products and services affected the central bank markedly tightened interest rate conditions. The growth of house prices accelerated further as well: the annual rate of change got close to 20% in Q3.

**OUTSTANDING LENDING DYNAMICS:** due especially to the introduction of home renovation loans with subsidized interest rates, there was a very dynamic growth of almost 40% in the volume of new mortgage loan contracts in 2021 compared to 2020. Meanwhile, the stock of mortgage-backed loans increased by 12%.

## Mortgage lending



\* Based on the MNB's house price index



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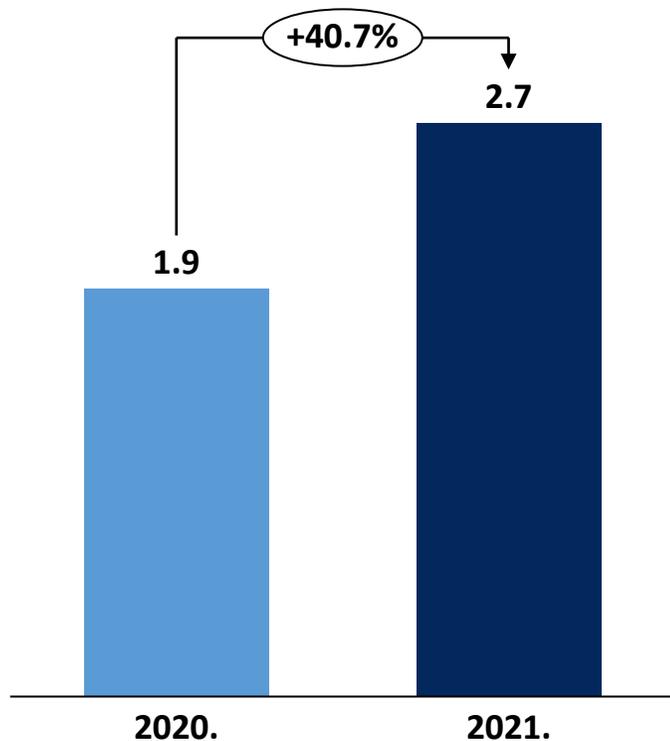
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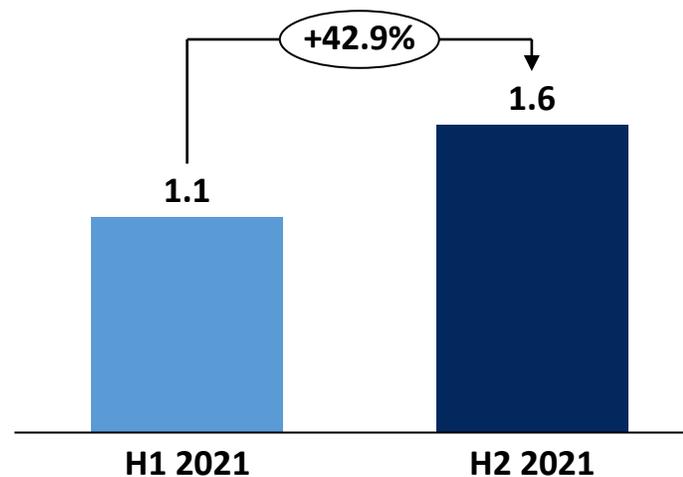
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**Y/Y development of profit before tax**  
(HUF billion)



**H/H development of profit before tax**  
(HUF billion)



- TakarékJelzálogbank's profit before tax reached HUF 2.7 billion in 2021 (+HUF 792 million, +40.7% y/y). The second half (H2) of the year contributed by HUF 1.6 billion (+ HUF 483 million, + 42.9% H/H).

# HUF 2.7 billion pre-tax profit mainly due to net interest income

P&L

Separate Statement of Profit or Loss (data in million HUF)	2020.	2021.		2021./2020.	
	FY	H1	H2	FY	
<b>Operating income, net</b>	<b>4 692</b>	<b>2 488</b>	<b>2 951</b>	<b>5 439</b>	<b>15,93%</b>
Net interest income	3 212	1 954	2 294	<b>4 248</b>	<b>32,3%</b>
Net fee and commission income	98	48	-79	-31	-131,55%
Net trading result	711	410	377	<b>787</b>	<b>10,64%</b>
(Losses)/Gains on derecognition of non-financial assets, net	157	-6	2	-4	-102,55%
Other operating income	530	82	357	439	-17,17%
Other operating expense	-16	0	0	0	-100,00%
<b>Provision and impairment</b>	<b>-144</b>	<b>-278</b>	<b>57</b>	<b>-221</b>	<b>53,97%</b>
<b>General and administrative expenses</b>	<b>-2 366</b>	<b>-1 098</b>	<b>-1 321</b>	<b>-2 419</b>	<b>2,24%</b>
Modification (Loss), net	-237	15	-77	-62	-73,84%
<b>Profit before tax</b>	<b>1 945</b>	<b>1 127</b>	<b>1 610</b>	<b>2 737</b>	<b>40,72%</b>
Income tax benefit	428	-71	79	8	-98,13%
<b>Profit for the year</b>	<b>2 373</b>	<b>1 056</b>	<b>1 689</b>	<b>2 745</b>	<b>15,68%</b>
<b>Separate Statement of Other Comprehensive Income</b>					
<b>Profit for the year</b>	<b>2 373</b>	<b>1 056</b>	<b>1 689</b>	<b>2 745</b>	<b>15,68%</b>
<b>Other comprehensive loss</b>	<b>-732</b>	<b>-233</b>	<b>-260</b>	<b>-493</b>	<b>-32,65%</b>
<b>Total comprehensive income for the year</b>	<b>1 641</b>	<b>823</b>	<b>1 429</b>	<b>2 252</b>	<b>37,23%</b>

The profit before tax of the Mortgage Bank reached HUF 2.7 billion (+40.7% y/y):

- Improvement was reached mainly due to a **32.3% increase in net interest income**. The favourable result was partly attributed to the continuously increasing interest income from refinancing activity, due to the expansion of refinanced portfolio (+7.6%). The interest income from the government securities portfolio also played an important role in growth.
- Net trading result amounted to HUF 787 million, which is **10.7% higher** than it was in 2020. The increase was due to the line of „gains on non-trading financial assets mandatorily at fair value through profit or loss“.
- Operating expenses increased moderately by only 2.2% as a result of strict cost control. This item amounted to HUF 2.4 billion in 2021.
- The Bank reduced the negative revaluation risk at the beginning of the interest rate growth path by purchasing short-term government securities, which moderated the negative effect on other comprehensive income (OCI).
- The deferred tax component was recorded positive at the Bank's income tax line in 2020 and 2021, resulting an increased deferred tax revenue. However, in 2020 the corporate tax payment was not significant due to items reducing the tax base.

Separate Statement of Financial Position (in HUF million)	2020.	2021.		2021./2020.
	Y	H1	Y	%
Cash, cash balances at central banks and other demand deposits	1 499	571	229	-84,72%
Financial assets held for trading	103	833	2 359	-
Financial assets at fair value through other comprehensive income	34 889	17 530	26 242	-24,78%
Financial assets at amortised cost and non-trading financial assets mandatorily at fair value through profit or loss	573 880	622 657	634 964	10,64%
Derivatives – Hedge accounting	926	393	0	-
Other assets	844	1 850	1 221	44,67%
<b>Total assets</b>	<b>612 141</b>	<b>643 834</b>	<b>665 015</b>	<b>8,64%</b>
<b>Liabilities</b>	<b>545 457</b>	<b>576 327</b>	<b>596 079</b>	<b>9,28%</b>
Financial liabilities held for trading	88	825	2 309	-
Financial liabilities designated at fair value through profit or loss	6 484	5 824	6 121	-5,60%
Financial liabilities measured at amortised cost	538 318	568 557	585 534	8,77%
Derivatives – Hedge accounting	284	0	1 112	291,55%
Provisions	116	117	28	-75,86%
Tax liabilities	4	0	147	-
Other liabilities	163	1 004	828	-
<b>Equity</b>	<b>66 684</b>	<b>67 507</b>	<b>68 936</b>	<b>3,38%</b>
<b>Total equity and total liabilities</b>	<b>612 141</b>	<b>643 834</b>	<b>665 015</b>	<b>8,64%</b>

**The total assets of Takarék Mortgage Bank exceeded HUF 665.0 billion at the end of 2021 (+8.6% y/y):**

- The Mortgage Bank actively participated in the tenders for fixed-rate long-term secured loans introduced and provided by the MNB till July 2021.
- The Bank built up 3 and 5-year maturity liability portfolios from the MNB on a beneficial interest rate. Accordingly, the stock of securities also increased, since part of the funds acquired from the MNB was disposed to this asset.
- The green mortgage bond purchase programme was launched by the MNB with an initial budget brackets of HUF 200 billion on 2nd August 2021, resulting a favourable development for the Bank's business and financial environment.



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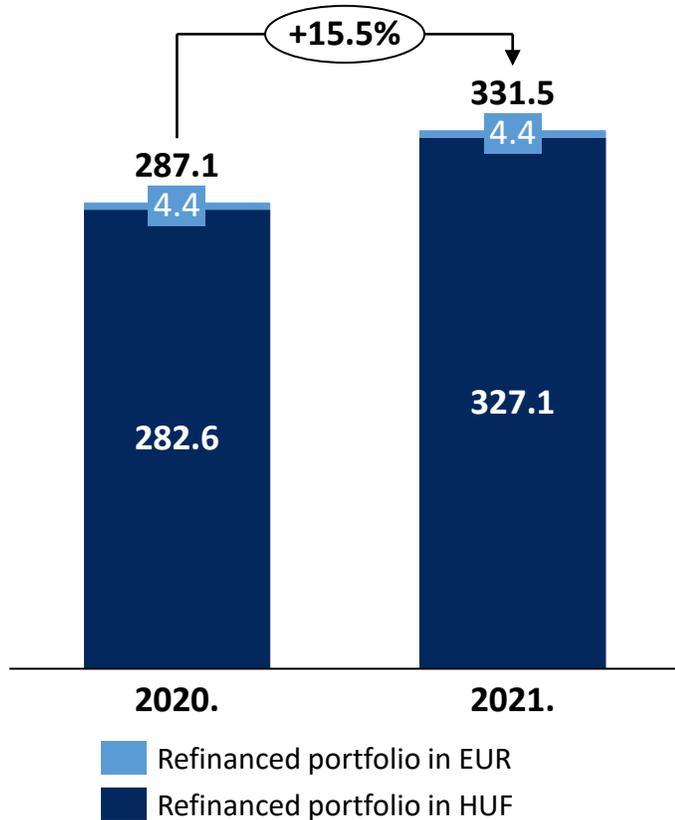
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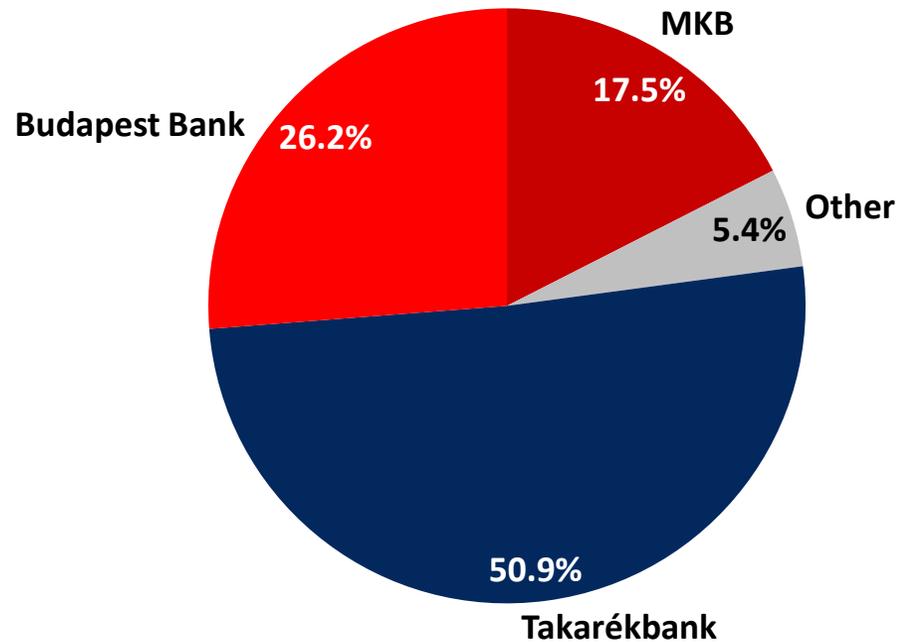
# Double-digit growth in the refinanced portfolio

Refinanced portfolio

## Development of the refinanced portfolio (HUF billion)

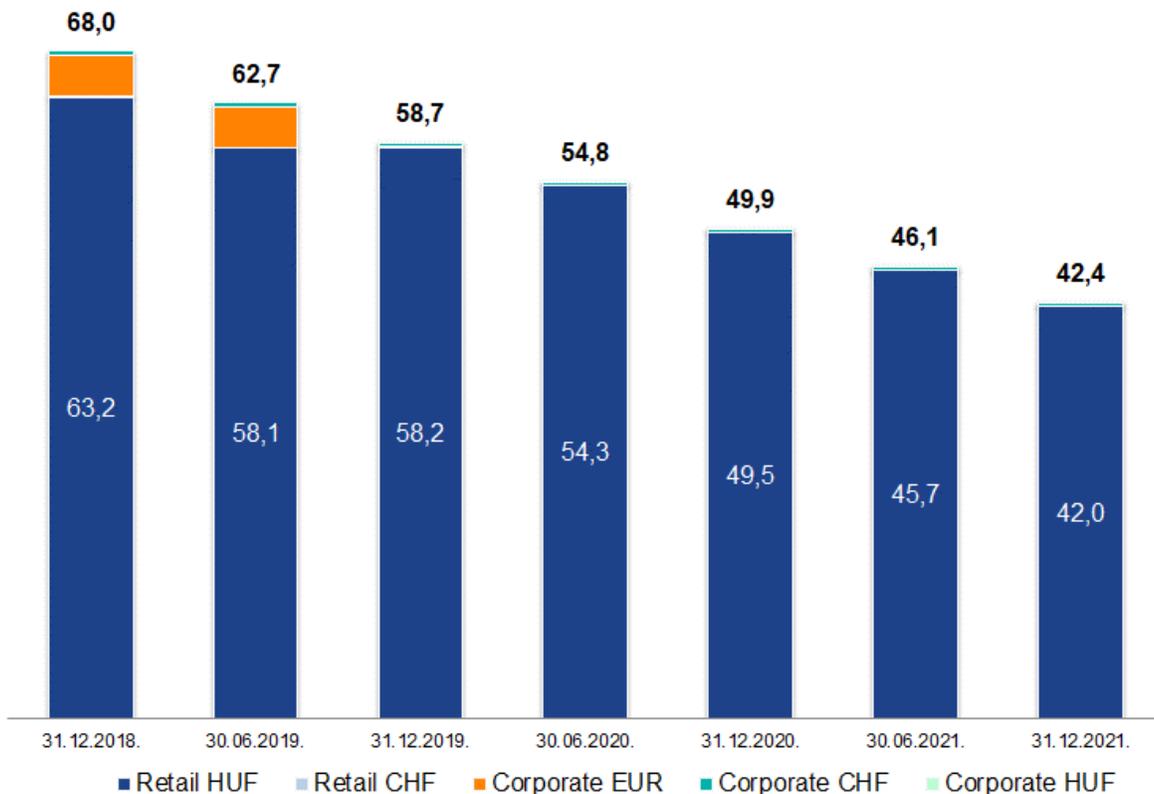


## Development of HUF refinanced portfolio



- 15.5% y/y increase in the refinancing portfolio. The portfolio was mostly denominated in HUF.
- More than the half of the HUF denominated portfolio was related to Takarékbank, while the share of MBH Group's member banks was aggregated to 94.6%.

## Currency breakdown of own originated loans (HUF billion)



- The Bank discontinued granting own originated loans in 2018, the stock of the remaining loans is to be amortized as scheduled. The rate of decrease in 2021 amounted to 15.0% (HUF -7.5 billion)
- The composition of the existing portfolio:
  - subsidized loans: 52%
  - HUF denominated loans: 99%
  - covered portfolio: 94%



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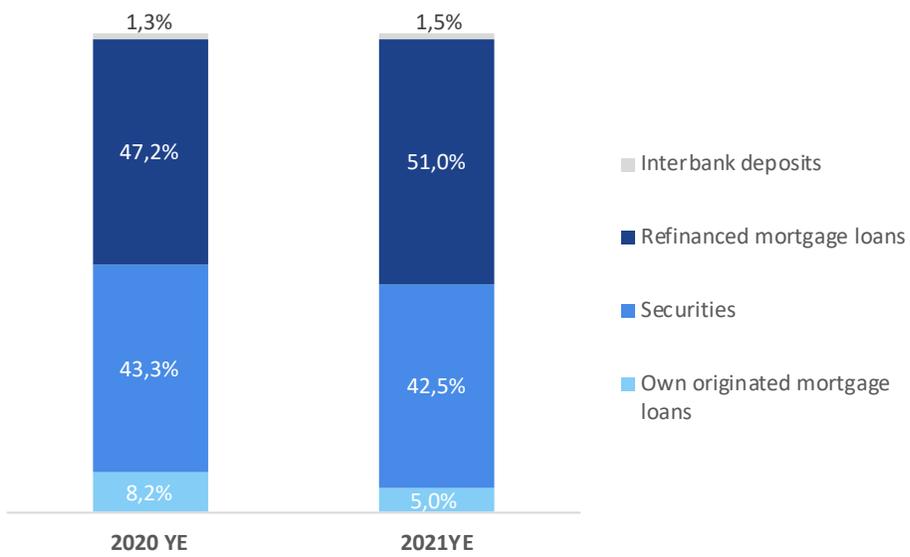
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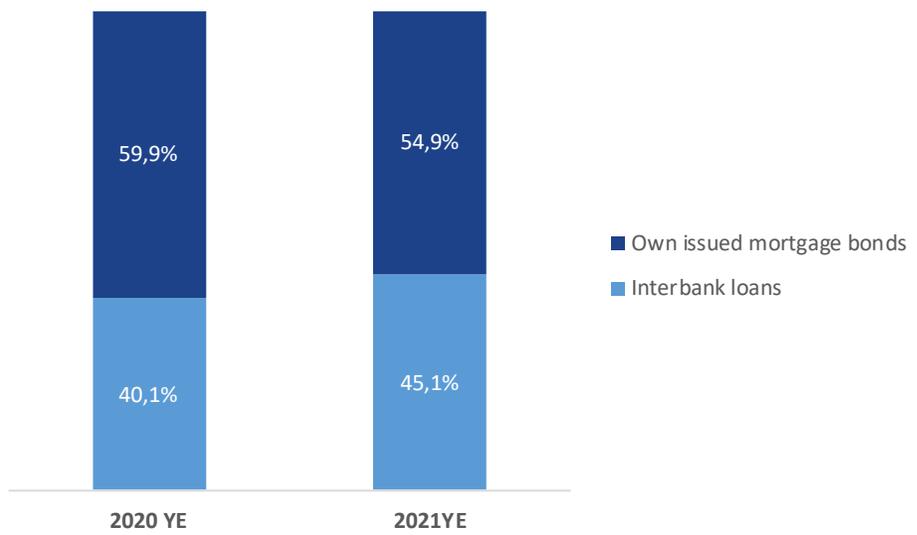
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## Interest earning assets

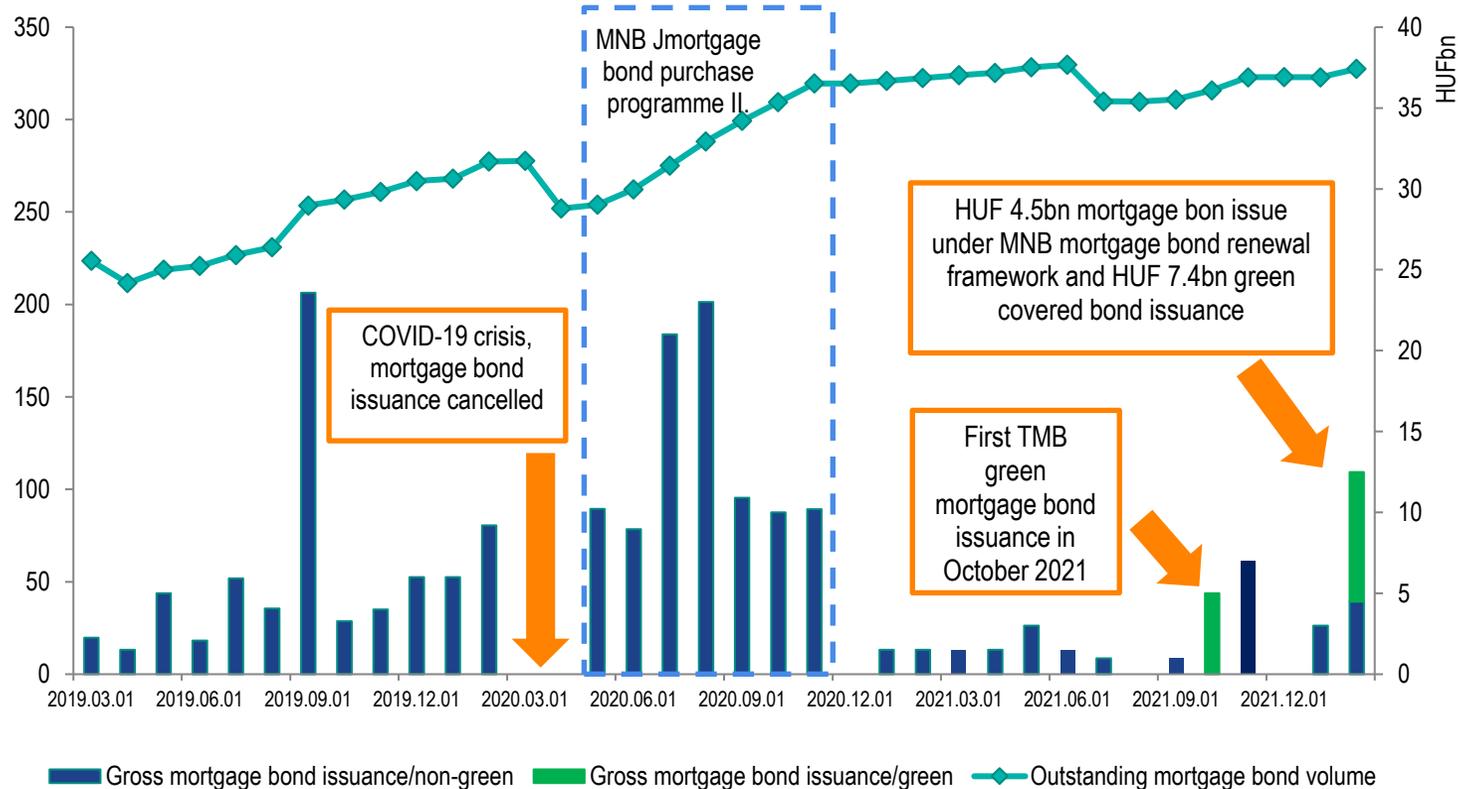


## Funding structure



- Liability derived from the MNB’s long term refinancing facility still plays a significant role in the A/L structure. Its volume was not increased further after the facility was terminated in July 2021.
- The share of securities did not increase, while the share of refinanced mortgage loans exceeded 50% within interest earning assets in 2021.

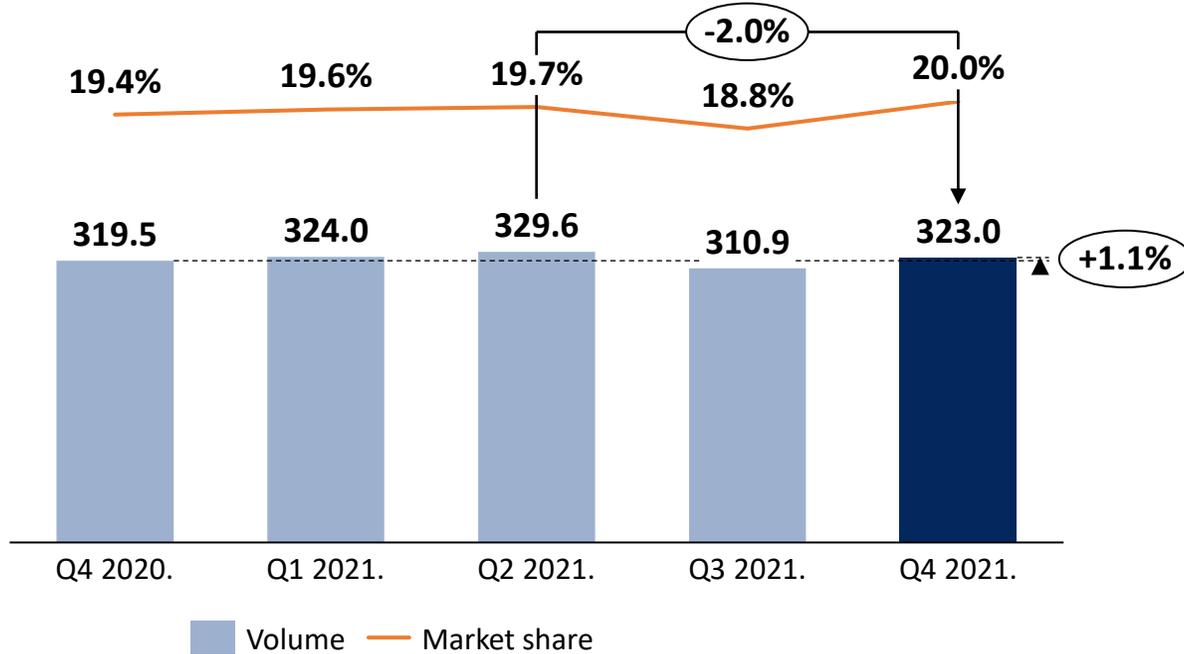
## Mortgage bond issuance and outstanding amount (HUF billion)



- Takarék Mortgage Bank (TMB) issued mortgage bonds of HUF 24.5 billion in twelve public auctions in 2021.
- TMB issued its first green mortgage bond with HUF 5 billion nominal value in October 2021.
- MNB terminated its primary market presence after terminating its Mortgage Bond Purchase Programme II at the end of 2020.
- In 2021 MNB **was active on the secondary market of mortgage bonds:**
  - MNB’s Green Mortgage Bond purchase Programme was launched on 2nd August, 2021, under which it purchased 40% of the offered auction volume at a preferential price. It also purchased HUF 0.2 billion per week on the secondary market.
  - Mortgage Bond Rollover Programme: MNB purchased 50% of offered auction volume at market price.

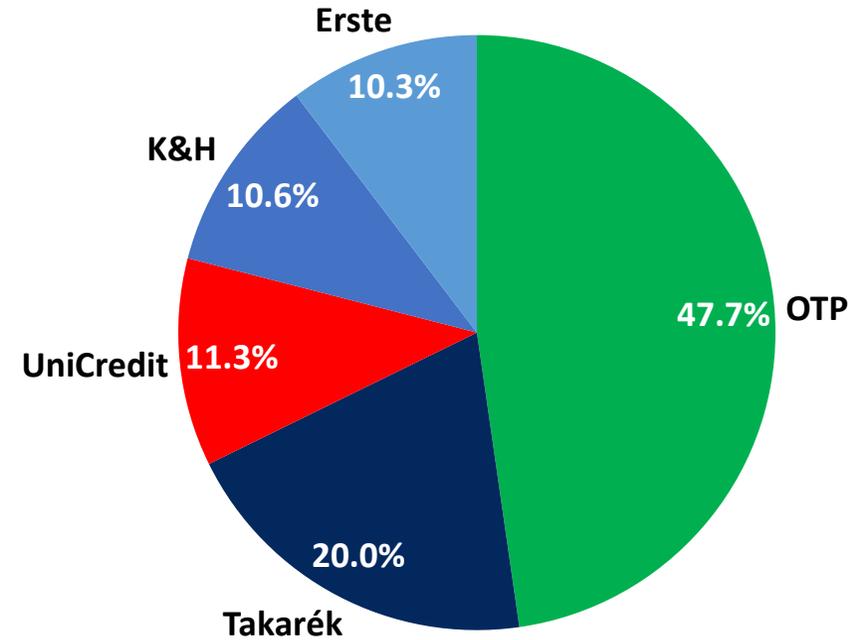
## The Bank's market share in the mortgage bond segment

(based on face value, HUF billion)



- The face value of mortgage bonds issued by Takarék Mortgage Bank Plc. reached HUF 323 billion by end-2021. This is a decrease of HUF 6.6 billion (i.e. -2%) compared to the first half of 2021, yet, a HUF **3.5 billion (1.1%) increase on annual basis**.
- As the volume in the whole market segment decreased by 3.2% since the first half of 2021, the Bank was still able to achieve 0.3 pp higher market share at 20%. It was the largest market share for the Bank since the fourth quarter of 2019.

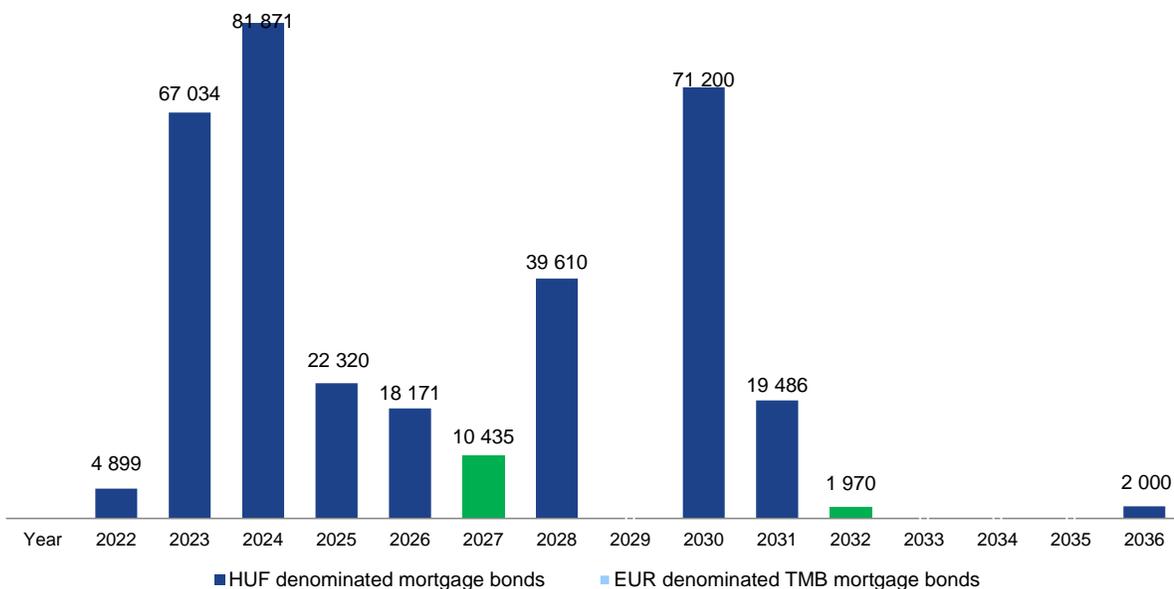
## Mortgage banks' market shares from mortgage bonds in circulation (based on face value)



- Takarék Mortgage Bank Co. Plc. maintains its **second position** with a **market share of 20%**.

## Maturity structure of TMB mortgage bonds, March 24, 2022

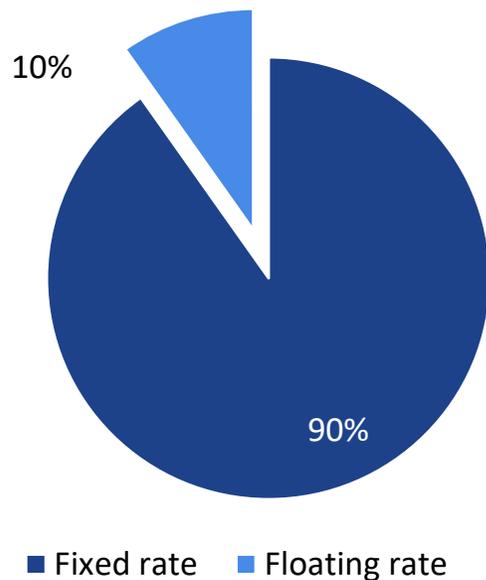
(in HUF million)



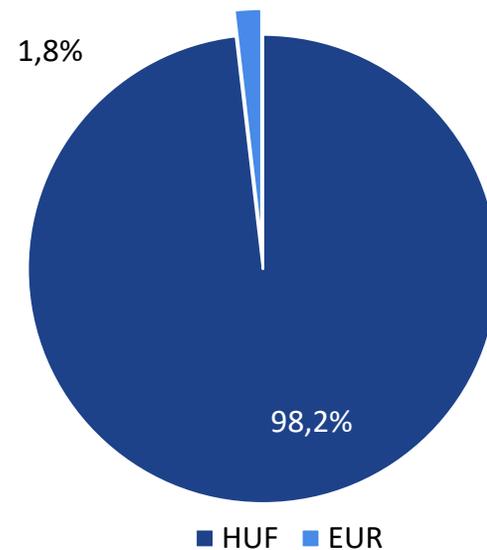
- The last EUR denominated TMB mortgage bond series expired in Q1 2021.
- Green and non-green 5-year and 10-year mortgage bond issues and tap-issues took place within the second half of 2021.

- TMB focused primarily on mortgage bond issues (no unsecured bonds), while the key short-term strategic aim is the issuance of **green mortgage bonds** with an increasing share in the total outstanding mortgage bond volume.
- TMB, as a mortgage bond issuer entity, supports Hungarian Bankholding's prudential management by the fulfilment of mortgage funding adequacy ratio (MFAR) requirement.
- Successful maturity extension in 2020-2021; the issuance of 10-year and 15-year mortgage bonds fit ALM preferences
- The domestic mortgage lending environment does not imply significant foreign currency funding need in the short run, as mortgage lending is currently active in HUF. The extension of commercial mortgage loan volume in the refinancing mortgage loan portfolio is considered a potential tool for widening the cover pool.

**Interest rate composition of outstanding mortgage bonds (end-2021)**



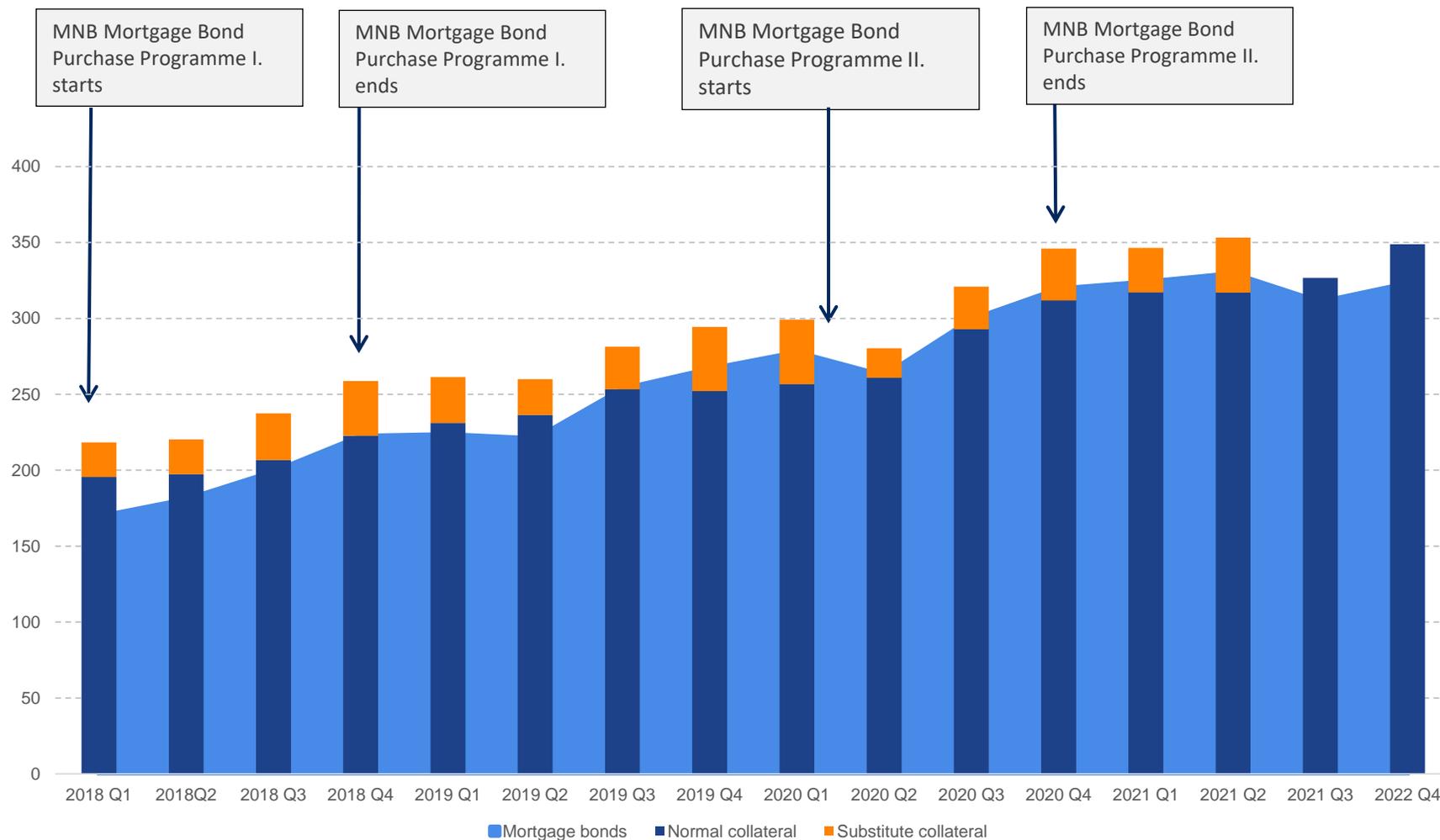
**FX composition of outstanding mortgage bonds (end-2021)**



**Covered bond rating**

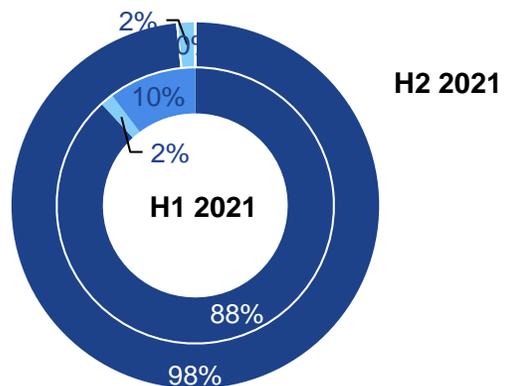
- S&P covered bond rating: BBB / stable outlook since 3rd June, 2021. Last review took place in October 2021, the rating was kept unchanged.

## Cover pool composition (in HUF billion)



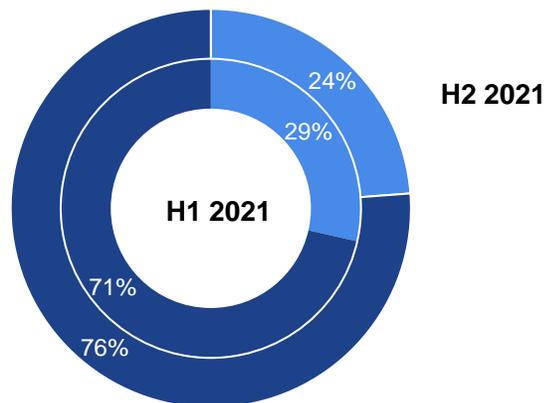
- TMB optimizes the size and structure of the cover pool, while maximizing the usage of MNB's mortgage bond related facilities.
- The size of **supplementary collateral** (mainly government bonds) was decreased to zero since Q2 2021, cover pool consists of **normal assets** (mortgage loans)
- Total cover pool size exceeded HUF 350 billion, while the outstanding mortgage bond volume reached HUF 340 billion, providing a constant surplus collateral of 6-8%:
  - Dynamic increase in the refinanced mortgage loan portfolio.
  - Mortgage bond issue sizes are tailored to the market environment and investors' demand.

## Asset types of cover pool



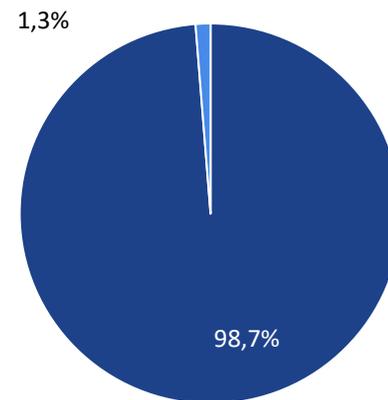
■ Residential loans ■ Commercial loans ■ Substitute assets

## Interest rate composition of cover pool



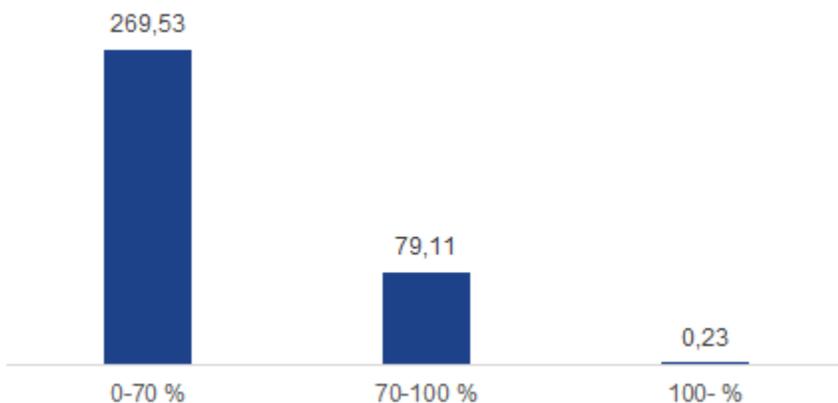
■ Floating rate ■ Fixed rate

## FX composition of cover pool (end-2021)



■ HUF ■ Other

## LTV composition of loans in the cover pool (end-2021, in HUF billion)



## Homogenous cover asset pool, stable risk profile

- The share of residential mortgage loans was close to 100%, of which the share of refinanced mortgage loans exceeded 90%
- The share of fixed loans reached 75%, the share of HUF loans was almost 100%
- Strict collateral management and property valuation rules resulted 77% of the mortgage loans in the cover pool falling into the conservative 0-70% range. **Weighted average LTV stood at 49.7% at the end of 2021.**



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## Results of 2021

- Preparation of the Green Covered Bond Framework on the basis of Green Bond Principles (GBP), with the assistance of a German technical advisor: *Drees & Sommer*.
- Selection of an independent Second Party Opinion provider: *Sustainalytics* the European market leader.
- Developing a green pricing methodology – it takes into account the impact of the MNB's Mortgage Bond Purchase Program and the changes to the mortgage funding adequacy regulation.
- Development of a green refinancing process – the IT needs of green refinancing process have been identified.
- Participation in the Green Covered Bond Purchasing Program of the MNB: green covered bond issuance: HUF 5 billion issued (TZJ27NF1) in October 2021.

## Results and key tasks in 2022

- Further successful green covered bond issuances: on 24th February 2022 HUF 5.4 billion (TZJ27NF1) and HUF 1.97 billion (TZJ32NF1).
- Publication of First Green Mortgage Bond Allocation Report for Q4 2021.
- TMB joined the Energy Efficient Mortgage Label in February 2022. EEML is a community of those banks and mortgage financial institutions, which finance or refinance mortgage loans taking into consideration energy performance of properties.
- Further IT developments aiming at efficient green refinancing and green transparency.



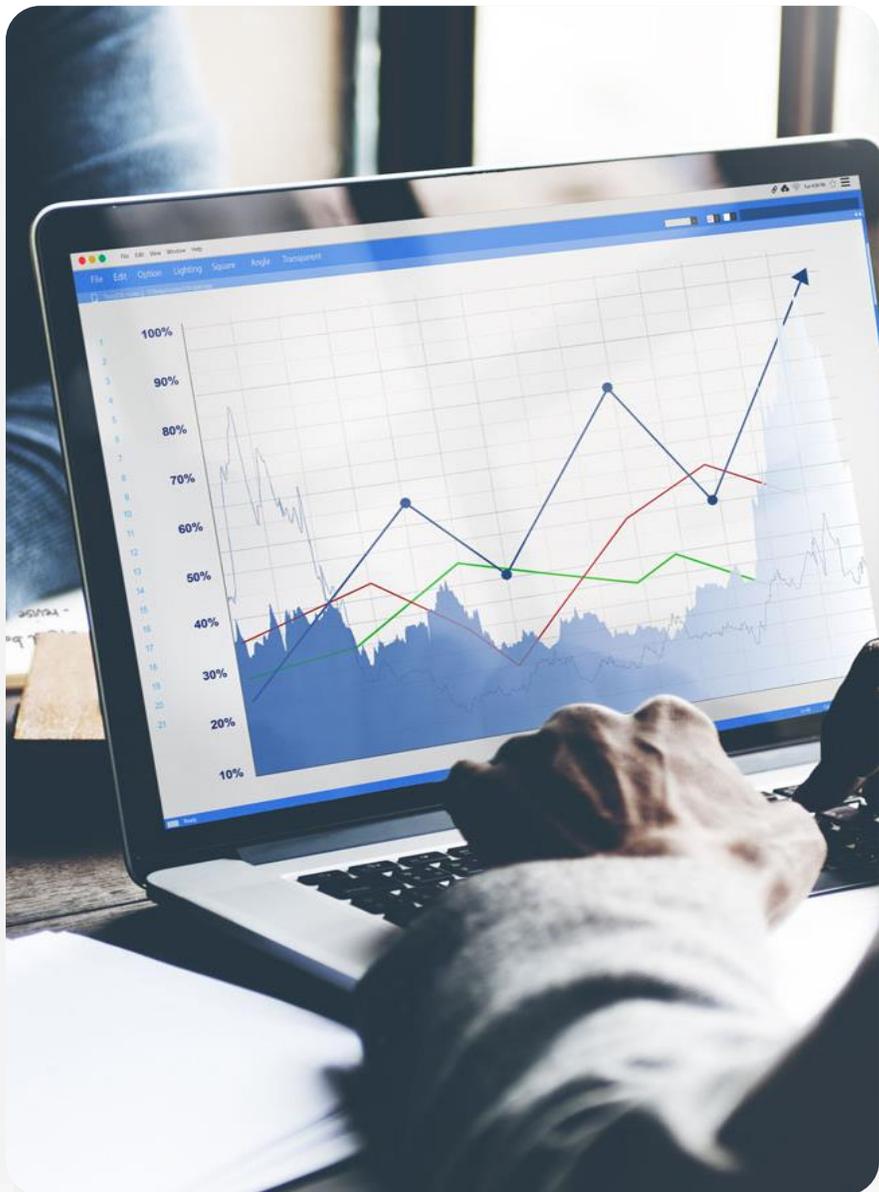
## Projects and results in 2021

- Start of an ESG project in cooperation with an external consultant.
- Elaboration on ESG strategy with ESG-based review of the business model.
- Independent ESG gap analysis and action plan in line with the MNB's sustainability recommendation.
- Establishment of an ESG reporting roadmap in accordance with the BSE recommendation.

## Projects and results of 2022

- Analysis of the process of reporting and standards.
- Materiality analysis, identification, collection, and investigation of ESG KPIs and KRIs.
- Independent ESG report expected to be published by end-H1 2022.
- Preparation for annual ESG reporting schedule based on the relevant roadmap.
- Harmonization with the parent company's ESG strategy.





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# Abbreviations

Bank  
Mortgage Bank  
MBH Hungarian Bankholding Ltd.  
NBH National Bank of Hungary  
ESG Environment, Social, Governance  
GBP Green Bond Principles  
EEML Energy Efficient Mortgage Label  
BÉT Budapest Stock Exchange

ROE, ROAE Return on average equity  
ROA, ROAA Return on assets  
CIR Cost-to-income ratio  
KPI Key Performance Indicator  
KRI Key Risk Indicator  
GAE General Administrative Expenses  
bp basis point



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Takarék Mortgage Bank's audited financial statements for 2021 is expected to be approved on 28 April 2022 by the Annual General Meeting.

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