# OTP BANK PLC.

## THE WRITTEN DOCUMENTS RELATED TO THE DECISION-MAKING OF THE BOARD OF DIRECTORS ACTING IN THE COMPETENCY OF THE ANNUAL GENERAL MEETING

16 APRIL 2021

## THE BOARD OF DIRECTORS ACTING IN THE COMPETENCY OF THE ANNUAL GENERAL MEETING SHALL PASS RESOLUTIONS ON THE FOLLOWING AGENDA:


1. THE COMPANY'S PARENT COMPANY'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 2020, AS WELL AS THE PROPOSAL FOR THE USE OF AFTER-TAX PROFIT OF THE PARENT COMPANY:

   - THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2020 ..... 3
   - PROPOSAL ON THE COMPANY'S PARENT COMPANY'S FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 2020 (STATEMENT OF FINANCIAL POSITION, STATEMENT OF PROFIT OR LOSS, STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF CHANGES IN EQUITY, STATEMENT OF CASH-FLOWS, NOTES TO THE FINANCIAL STATEMENTS ..... 144
   - PROPOSAL FOR THE USE OF THE AFTER-TAX PROFIT OF THE PARENT COMPANY ..... 265
   - PROPOSAL ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 2019 (STATEMENT OF FINANCIAL POSITION, STATEMENT OF PROFIT OR LOSS, STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF CHANGES IN EQUITY, STATEMENT OF CASH-FLOWS, NOTES TO THE FINANCIAL STATEMENTS) ..... 267
   - REPORT OF THE SUPERVISORY BOARD ON THE ANNUAL FINANCIAL STATEMENTS FOR 2020 AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT ..... 428
   - AUDIT COMMITTEE'S REPORT ON THE ANNUAL FINANCIAL STATEMENT FOR 2020 AND PROPOSAL FOR THE USE OF AFTER-TAX PROFIT ..... 432
   - RESULTS OF THE INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 2020 ..... 436

2. APPROVAL OF THE CORPORATE GOVERNANCE REPORT FOR Y2020 ..... 450

3. EVALUATION OF THE ACTIVITY OF EXECUTIVE OFFICERS PERFORMED IN THE PAST BUSINESS YEAR, DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY ..... 496

4. ELECTION OF THE COMPANY'S AUDIT FIRM, THE DETERMINATION OF THE AUDIT REMUNERATION, AND DETERMINATION OF THE SUBSTANTIVE CONTENT OF THE CONTRACT TO BE CONCLUDED WITH THE AUDITOR ..... 501

5. PROPOSAL ON THE ADDITION OF NEW ARTICLE 11 SECTION 13 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION ..... 504

6. PROPOSAL ON THE GROUP-LEVEL REMUNERATION GUIDELINES OF OTP BANK PLC ..... 507

7. AUTORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES ..... 516

8. ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD ..... 520

9. ELECTION OF THE MEMBER OF THE THE AUDIT COMMITTEE ..... 523

10. DETERMINATION OF THE REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE ..... 526

11. ELECTION OF AND THE DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS ..... 529

# THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2020

# BUSINESS REPORT
# OTP BANK (SEPARATE)

***Based on the judgment of the Bank's management, the separate business report's data can be interpreted fully only together with the consolidated processes and figures, so this business report contains consolidated data as well.***

## CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

| Main components of the adjusted Statement of recognised income | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| Adjustments (total) | (6,470) | (50,631) | 683 |
| **Consolidated adjusted after tax profit** without the effect of adjustments | **419,052** | **310,268** | **(26)** |
| Pre-tax profit | 465,973 | 351,802 | (25) |
| Operating profit | 510,045 | 537,437 | 5 |
| Total income | 1,077,727 | 1,169,920 | 9 |
| Net interest income | 706,298 | 788,079 | 12 |
| Net fees and commissions | 282,504 | 293,112 | 4 |
| Other net non-interest income | 88,926 | 88,729 | 0 |
| Operating expenses | (567,682) | (632,483) | 11 |
| Total risk costs | (47,107) | (187,995) | 299 |
| One off items | 3,034 | 2,360 | (22) |
| Corporate taxes | (46,921) | (41,534) | (11) |
| **Main components of the adjusted balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 20,121,767 | 23,335,841 | 16 |
| **Total customer loans (net, FX adjusted)** | **12,902,518** | **13,528,586** | **5** |
| **Total customer loans (gross, FX adjusted)** | **13,605,264** | **14,363,281** | **6** |
| Allowances for possible loan losses (FX adjusted) | (702,746) | (834,695) | 19 |
| **Total customer deposits (FX adjusted)** | **16,260,599** | **17,890,863** | **10** |
| Issued securities | 393,167 | 464,213 | 18 |
| Subordinated loans | 249,938 | 274,704 | 10 |
| Total shareholders' equity | 2,291,288 | 2,537,112 | 11 |
| **Indicators based on adjusted earnings** | **2019** | **2020** | **pps** |
| ROE (from accounting net earnings) | 20.3% | 10.9% | (9.4) |
| ROE (from adjusted net earnings) | 20.6% | 13.0% | (7.6) |
| ROA (from adjusted net earnings) | 2.4% | 1.4% | (1.0) |
| Operating profit margin | 2.97% | 2.47% | (0.51) |
| Total income margin | 6.28% | 5.37% | (0.92) |
| Net interest margin | 4.12% | 3.61% | (0.50) |
| Cost-to-asset ratio | 3.31% | 2.90% | (0.41) |
| Cost/income ratio | 52.7% | 54.1% | 1.4 |
| Provision for impairment on loan and placement losses-to-average gross loans ratio | 0.28% | 1.15% | 0.87 |
| Total risk cost-to-asset ratio | 0.27% | 0.86% | 0.59 |
| Effective tax rate | 10.1% | 11.8% | 1.7 |
| Net loan/(deposit+retail bond) ratio (FX adjusted) | 79% | 76% | (3) |
| Capital adequacy ratio[2] (consolidated, IFRS) - Basel3 | 16.8% | 17.7% | 1.0 |
| Tier1 ratio[2] - Basel3 | 14.4% | 15.4% | 1.0 |
| Common Equity Tier 1 ('CET1') ratio[2] - Basel3 | 14.4% | 15.4% | 1.0 |
| **Share Data** | **2019** | **2020** | **%** |
| EPS diluted (HUF) (from unadjusted net earnings) | 1,575 | 1,003 | (36) |
| EPS diluted (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| Closing price (HUF) | 15,430 | 13,360 | (13) |
| Highest closing price (HUF) | 15,600 | 15,630 | 0 |
| Lowest closing price (HUF) | 11,270 | 8,010 | (29) |
| Market Capitalization (EUR billion) | 13.1 | 10.2 | (22) |
| Book Value Per Share (HUF) | 8,183 | 9,061 | 11 |
| Tangible Book Value Per Share (HUF) | 7,362 | 8,436 | 15 |
| Price/Book Value | 1.9 | 1.5 | (21) |
| Price/Tangible Book Value | 2.1 | 1.6 | (24) |
| P/E (trailing, from accounting net earnings) | 10.5 | 14.4 | 37 |
| P/E (trailing, from adjusted net earnings) | 10.3 | 12.1 | 17 |
| Average daily turnover (EUR million) | 16 | 22 | 38 |
| Average daily turnover (million share) | 0.4 | 0.7 | 75 |

[1] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.

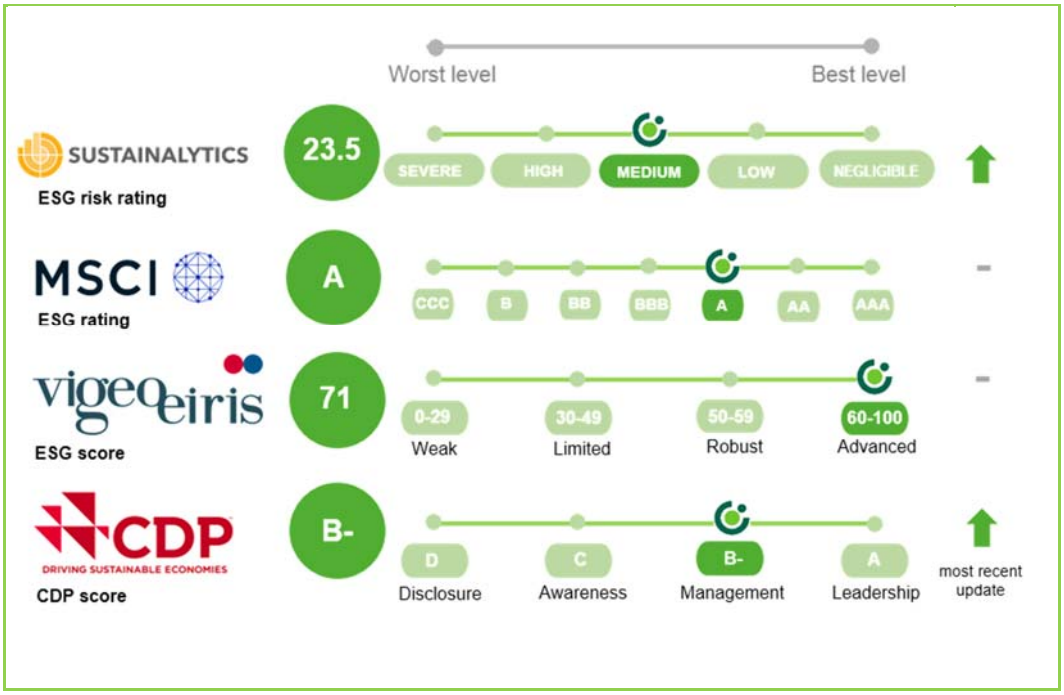
[2] Concerning 4Q 2019 capital adequacy ratios, the figures presented in this report do not include deducted dividend. This is consistent with the decision made by the Board of Directors on the 30th of April 2020, acting on behalf of the AGM, about the retainment of profit generated in 2019. These capital adequacy ratios differ from those presented in the Summary of the Group's 4Q 2019 results, and the 2019 Annual Report.

General note: in the tables of the Business Report those changes aren't presented that are deemed not to carry a meaningful economic substance (for example, if the absolute value of the change exceeds 1,000%).

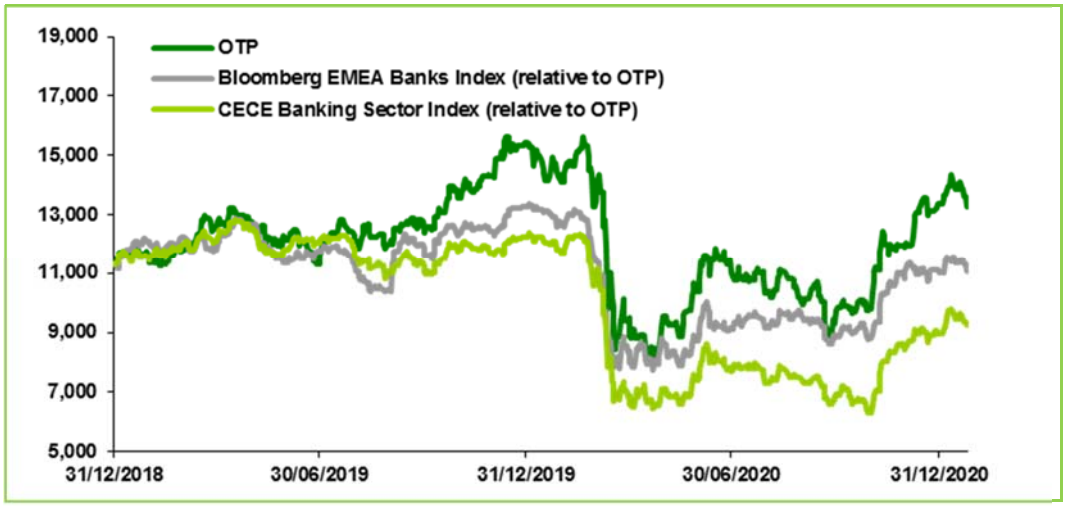
## ACTUAL CREDIT RATINGS

| S&P GLOBAL RATINGS | |
|---|---|
| OTP Bank and OTP Mortgage Bank – FX Long term credit rating | BBB |
| | |
| **MOODY'S** | |
| OTP Bank – FX long term deposits | Baa1 |
| | |
| OTP Bank – Subordinated Foreign Currency Debt | Ba1 |
| | |
| OTP Mortgage Bank – Covered mortgage bond | A2 |
| | |
| **FITCH** | |
| OTP Bank Russia – Long term credit rating | BB+ |

## ACTUAL ESG RATINGS




## SHARE PERFORMANCE



## *MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2020 RESULTS OF OTP GROUP*

According to the detailed GDP data published on 2 March 2021, in 4Q the Hungarian economy grew by 1.4% q-o-q, as a result, the annual GDP declined by 5.0% y-o-y.

The lower than expected erosion was mainly due to the targeted and successful measures implemented by the Government and the National Bank of Hungary (NBH) in order to contain the economic contraction. Those steps were essential to moderate the increase of unemployment; by the end of 2020 employment level practically matched the previous year's figure. The family supporting schemes and housing subsidies, as well as measures boosting local ventures created the preconditions for a meaningful economic kick start in 2021.

Monetary policy conditions remained loose in 2020, and the NBH increased the available amounts within the framework of both the *Funding for Growth Go!* scheme and the Bond Funding for Growth programme, and increased the weight of government bonds in its balance sheet. With temporary easing of the capital buffer requirements, NBH supported the lending activity of banks.

Out of the numerous measures made at the end of 2020, the extension of the payment moratorium by the Parliament on 20 December until 30 June 2021, leaving participation conditions unchanged, had a paramount importance.

The average inflation for 2020 was 3.3%. The policy rate came down by 30 bps to 60 bps, while interbank rates shifted upward: the reference rate (3M BUBOR) increased y-o-y from 16 bps to 75 bps. The Hungarian Forint on average weakened against the euro by 8% y-o-y amid substantial volatility.

According to the Central Bank's report published on 3 February 2021, despite the economic recession caused by the pandemic, in 2020 both household and corporate loan volumes expanded dynamically: the former increased by 14%, while the latter by 13%, respectively. The payment moratorium had a positive impact on exposures, since there was no principal amortization. Within household volumes the key engine was the subsidized baby loans, the total outstanding book grew by 130% y-o-y on sector level and their volumes reached HUF 1,064.5 billion by the end of 2020. Cash loans advanced by 12%, housing loans by 10%, respectively; on the other hand, home equity loans eroded by 5% y-o-y.

Most of the local economies within OTP Group suffered lower contraction than originally anticipated, especially in countries with a relatively low weight of tourism or service sector, like Russia, Ukraine and Serbia. In order to efficiently cure the recession, massive government measures were implemented, and in several countries, that was coupled with numerous and larger scale interest rate cuts by the central banks. Moreover, with the exception of Ukraine, all other countries introduced payment moratoriums with different conditions and duration.

### *Consolidated earnings: HUF 310 billion adjusted annual after tax profit, stable portfolio quality, 9% y-o-y performing FX-adjusted organic loan growth*

Despite the extraordinary challenges triggered by the pandemic, in 2020 the overall operation of the Group remained uninterrupted. It was quite an achievement that out of the previous acquisitions, the Bulgarian integration was completed in early May 2020, as well as the Montenegrin one in December. The sale of the Slovakian subsidiary was completed by the end of November.

The total volume of adjustment items in 2020 represented -HUF 50.6 billion (after tax) within the HUF 260 billion accounting profit, underpinning a sizeable increase y-o-y. The larger adjustment items occurring in 2020 were as follows:

- In 2020 as a whole the one-off impact of the loan repayment moratoria was -HUF 28.3 billion. In Hungary the first phase of the moratorium on loan payments was effective from 19 March 2020 to 31 December 2020. The moratorium was extended in unchanged form for the period between 1 January 2021 – 30 June 2021. During the term of the moratorium OTP Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues. At the same time, due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later, altogether HUF 28.3 billion (after tax) loss emerged in Hungary and Serbia. Out of this amount the expected one-off negative impact of the extended moratorium in Hungary (effective from 1 January to 30 June 2021) represented -HUF 9.1 billion (after tax), calculated on the base of year-end participation rate: at the end of December 37% of the combined gross loan portfolio at OTP Core and Merkantil Group was under the moratorium representing HUF 1,881 billion. This amount was recognized in December 2020. Also, within that amount there was a -HUF 1.7 billion (after tax) negative impact in relation to the Serbian deferral scheme, as the original interest calculation method was changed by the local regulator (originally the compound interest method was allowed by the law in Serbia, but charging interest on

deferred interest was retrospectively disallowed by the regulator). In case of other foreign subsidiaries the Bank didn't assume any meaningful negative NPV impact as a result of the moratoria.

- -HUF 17.4 billion negative impact of banking tax paid at the Hungarian and Slovakian subsidiaries (after tax), the latter was paid only until 30 June 2020;
- -HUF 6.9 billion appeared on the effect of acquisitions line (after tax) which, among others, incorporated the integration costs in Bulgaria, Serbia, Slovenia, Albania, Moldova and Montenegro; also, provisions made in 4Q 2019 for the divestment of the subsidiary were released with a positive impact of HUF 6 billion (after tax);

The full-year 2020 consolidated adjusted after tax profit exceeded HUF 310 billion (-26% y-o-y). The adjusted ROE stood at 13%.

Since the after tax results were heavily distorted by the volume of total risk costs (HUF 188 billion related mainly to the pandemic situation), general trends are better illustrated and easier compared to base periods through the development of operating income.

In 2020 OTP Group posted HUF 537.4 billion consolidated operating income underpinning a 5% y-o-y increase (-4%, without acquisitions, FX-adjusted[3]). Total income increased dynamically (+9% y-o-y) with net interest income surging by 12% y-o-y, while net fees & commissions grew at a slower pace (+4%) and other net non-interest income remained flat y-o-y. The weaker increase in net fees & commissions on one hand was shaped by a drop in business activity in the first half of the year induced by the pandemic, and also by a lower success fee income compared to a record high performance in 2019 at OTP Fund Management (Hungary).

The consolidated NIM eroded substantially (2020: 3.61%, -50 bps y-o-y) due to several reasons: on one hand the interest rate environment declined substantially in a few countries (Russia, Ukraine, Romania, Serbia); furthermore, new subsidiaries consolidated into OTP Group usually operated with lower margins than the Group as a whole. Also, as a side-effect of the pandemic, demand for the higher margin consumer loans dropped, while the competition intensified. That was only partially offset by the positive impact of FX rate moves related to weaker HUF. The annual net interest income adjusted for acquisitions effects grew by 2% y-o-y (FX-adjusted), as a result of higher performing loan volumes.

Consolidated annual operating costs nominally advanced by 11% y-o-y, however adjusted for the acquisitions (2Q 2019: the Albanian subsidiary, 2H 2019: the Montenegrin, Moldovan, Serbian and from January 2020 the Slovenian subsidiaries) and for the sale of Slovakia, the FX-adjusted expense growth was only 2.4% y-o-y. The COVID-related measures, as well as the donations resulted in around HUF 7.5 billion extra expenses on a Group level. The consolidated cost-to-income ratio stood at 54.1% (+1.4 pps y-o-y).

Except the Moldovan operation, adjusted earnings declined everywhere across the Group y-o-y. Out of the adjusted annual profit the contribution of the non-Hungarian operations dropped from 46% to 41%.

Apart from Russian performing (Stage 1+2) loan book where the y-o-y drop exceeded 10%, and the marginal decline of the Slovenian portfolio, all other Group members demonstrated loan growth (FX-adjusted). Out of the major Group members the Hungarian (+17%), Serbian (+16%), Romanian (+13%) and Ukrainian (+11%) organic loan expansion rates were the most remarkable. In Hungary the excellent volume dynamics were coupled with improving market share in most of the loan categories.

As for the major credit categories in 2020 the FX-adjusted Stage 1+2 micro and small enterprise book advanced organically the fastest y-o-y (+11%), followed by the mortgage loan portfolio (+10%), the consumer exposures (+9%) and the large corporate book (+8%).

During the course of 2020 lending activity to a great extent was shaped by easing/lifting lockdowns and limitations, but targeted Government programmes helped, too. The second wave of COVID-19 pandemic had a more limited impact on business activity, also, seasonality affected lending.

One of the side effects of the pandemic was that while household consumption and investment activity of corporates suffered setback, savings demonstrated steady growth. The FX-adjusted deposit portfolio grew by 10% y-o-y. Such yearly increase translated into more than HUF 2,000 billion deposit volume surge (already adjusted for the Slovakian deposit volumes). Out of the major operations the Ukrainian, Romanian, Hungarian, Slovenian and Serbian subsidiaries captured double digit volume increase. The consolidated net loan-to-deposit ratio declined to 76% q-o-q.

[3] On 11 December 2020, Podgoricka banka AD Podgorica was merged into Crnogorska komercijalna banka AD, thus separate financial statements for Podgoricka were not available for December. Therefore, profit dynamics without acquisitions are based on estimated numbers.

At the end of 2020 the gross operative liquidity reserves of the Group comprised EUR 8.9 billion equivalent. The NBH acting as resolution authority on 16 October 2020 informed the Bank about the consolidated minimum requirement for own funds and eligible liabilities (MREL requirement) of OTP Group. NBH didn't set intermediate target to be met by end of 2020, but determined a mandatory intermediate target for the consolidated MREL requirement that OTP Group has to comply with by 1 January 2022. This level is 11.55% of the Group's total liabilities and own funds (TLOF) which corresponds to 17.16% of the Group's total risk exposure amount (TREA or RWA). In 2020 no international bond transaction was executed.

The consolidated loan portfolio quality – partly due to the existing or extended payment moratorium – remained relatively stable in 2020: the DPD90+ volume growth (adjusted for FX and the effect of sales and write-offs, as well as for the revaluation of Factoring claims in Hungary) amounted to HUF 85 billion, against HUF 66 billion in 2019. The consolidated DPD90+ ratio declined below 4% (3.8%, -0.4 pp y-o-y).

The Stage 1+2 exposures (HUF 13,544 billion) comprised 94.3% of total gross loans. Within that Stage 1 loans represented 80.4% of total gross loans and the Stage 2 ratio was 13.9%.

The Stage 3 ratio under IFRS 9 was 5.7% at end of 2020 (-0.2 pp y-o-y). The own coverage of Stage 1, 2 and 3 exposures was 1.0%, 10.4% and 62.3%, respectively.

Within the consolidated loan portfolio in 1Q a significant volume of corporate exposures was shifted from Stage 1 into the riskier Stage 2 category on a collective base, whereas in case of retail exposures the Bank implemented higher provision coverage during the first two quarters. In 3Q a practice similar to that used in the case of corporate exposures was followed in case of the household portfolio. Mainly those exposures were reclassified where the Bank presumed higher potential risk, though this had not materialized yet due to the moratoria, in particular at the Hungarian, Bulgarian, Croatian, Romanian and Serbian operations.

In 4Q the Group further fine-tuned its Stage 2 classification methodology: in case of corporate exposures it identified clients with higher risk profile within the framework of its monitoring process on a case by case basis, whereas for household loans it rather used its internal ratings. As a result, Stage 2 volumes increased at certain operations. The extension of the moratorium and the EBA guidance issued on 2 December 2020 on the treatment of exposures within existing or extended payment moratoria schemes (EBA/GL/2020/15) induced further tightening in the methodology compared to 3Q; particularly in the case of OTP Core.

The adjusted total risk costs represented -HUF 188 billion in 2020 as a whole. Within that credit risk costs increased to -HUF 158.4 billion and the annual credit risk cost rate was 1.15% of the average gross loan volumes.

### *Consolidated capital adequacy ratio (in accordance with BASEL III)*

At the end of December 2020 the consolidated Common Equity Tier 1 ratio under IFRS was 15.4% (+1 pp y-o-y). This ratio equals to the Tier 1 ratio.

The amount of eligible profit included into regulatory capital equals to the annual profit (HUF 259 billion) reduced by the deducted dividend (HUF 119 billion). The deducted dividend amount for 2020 was determined in accordance with the Commission Delegated Regulation (EU) No. 241/2014. Article 2. (7) Paragraph. Accordingly, in the absence of a stated dividend policy, the amount of the dividend to be deducted should be calculated as follows: out of the previous three years' average dividend payment ratio and that of the preceding year the higher ratio must be applied. The dividend amount must be calculated from OTP Group's consolidated accounting profit, and this must be deducted from the consolidated regulatory capital. However, the deducted dividend also included HUF 69.44 billion, the original dividend proposal by the management after the 2019 fiscal year, which wasn't paid out in accordance with the National Bank of Hungary's recommendation.

### *Credit rating, shareholder structure*

On 27 January 2020 S&P Global Ratings upgraded OTP Bank Plc's and OTP Mortgage Bank's short- and long-term issuer credit ratings from 'BBB-/A-3' to 'BBB/A-2'. At the same time S&P affirmed its 'BBB/A-2' long- and short-term resolution counterparty ratings on OTP and OTP Mortgage Bank. The outlook remained stable for both banks.

On 29 September 2020 Moody's changed the outlook from stable into positive on OTP Bank Plc's long-term FX deposit rating; furthermore, on 10 December Moody's upgraded OTP Bank Plc's long-term FX deposit rating from 'Baa3' to 'Baa1' with stable outlook. On 2 April 2020 Moody's changed the outlook on OTP Mortgage Bank's issuer rating ('Baa2') from stable into negative. OTP Mortgage Bank's covered bond rating remained 'Baa1'.

OTP Bank Russia's 'BB+' rating by Fitch is unchanged, on 23 April 2020, however, the outlook was changed from stable to negative. Regarding the ownership structure of the Bank, on 31 December 2020 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.71%), the Kafijat Group (7.20%), OPUS Securities SA (5.26%) and Groupama Group (5.20%).

## POST-BALANCE SHEET EVENTS

*Post-balance sheet events cover the period until 19 February 2021.*

### Hungary

- Effective from 13 January 2021 the National Bank of Hungary extended the available amount for the Bond Funding for Growth scheme by HUF 750 billion to HUF 1,150 billion. At the same time it decided to increase the maximum maturity of corporate bonds that can be purchased by the central bank from 20 to 30 years. Also, the central bank's exposure limit to a company group was revised from HUF 50 billion to HUF 70 billion.
- On 4 February 2021 the Prime Minister announced an interest-free loan programme for companies in trouble in the wake of the pandemic. According to Government Resolution 1038/2021. (II. 5.) the programme will be administered by the Hungarian Development Bank, and the available amount under the programme will be HUF 100 billion. Companies can take out maximum HUF 10 million each for the purpose of covering wages and social contributions, overhead costs, general operating expenses and inventory financing. Client interest rate is 0%, the loan tenor can be up to 10 years, and the servicing of the loan will start after a 3 year grace period. The scope of eligible entities will be discussed with the Hungarian Chamber of Commerce and Industry.
- On 16 February 2021 the Hungarian Statistical Office revealed the preliminary 4Q 2020 GDP statistics. Accordingly, in the fourth quarter the Hungarian economy grew by 1.1% q-o-q (seasonally and working day adjusted), but contracted by 5.1% y-o-y in 2020 as a whole.

### Bulgaria

- On 19 February 2021 Fitch Ratings reaffirming Bulgaria's sovereign 'BBB' debt rating, and changed the outlook from stable to positive.

### Croatia

- On 4 February 2021 the European Central Bank and the Croatian National Bank agreed to extend the euro liquidity line until the end of March 2022.

### Serbia

- On 4 February 2021, the European Central Bank extended the maintenance of a repo facility providing euro-based liquidity to the National Bank of Serbia in order to help with possible liquidity needs in euros during post-epidemic market disruptions.

### Romania

- On 15 January 2021 the National Bank of Romania decided to reduce the key interest rate by 25 bps to 1.25%.

### Russia

- On 20 January 2021 the Central Bank of Russia published its 2021-2022 road map for regulating consumer lending, as a result loosening measures taken in 2020 to facilitate lending will be reversed through higher risk weights being introduced.

## CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[4]

| | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| **Adjustments (total)** | **(6,470)** | **(50,631)** | **683** |
| **Consolidated adjusted after tax profit without the effect of adjustments** | **419,052** | **310,268** | **(26)** |
| Banks total[1] | 382,144 | 285,103 | (25) |
| OTP Core (Hungary)[2] | 190,956 | 159,303 | (17) |
| DSK Group (Bulgaria)[3] | 67,879 | 40,957 | (40) |
| OBH (Croatia)[4] | 30,719 | 14,830 | (52) |
| OTP Bank Serbia[5] | 10,430 | 7,298 | (30) |
| SKB Banka (Slovenia) | - | 9,665 | |
| OTP Bank Romania[6] | 6,309 | 1,558 | (75) |
| OTP Bank Ukraine[7] | 35,223 | 26,104 | (26) |
| OTP Bank Russia[8] | 28,127 | 16,317 | (42) |
| CKB Group (Montenegro)[9] | 6,377 | 4,307 | (32) |
| OTP Bank Albania | 2,616 | 1,959 | (25) |
| Mobiasbanca (Moldova) | 1,936 | 3,973 | 105 |
| OBS (Slovakia)[10] | 1,575 | (1,169) | (174) |
| Leasing | 7,115 | 7,661 | 8 |
| Merkantil Group (Hungary)[11] | 7,115 | 7,661 | 8 |
| Asset Management | 15,208 | 9,824 | (35) |
| OTP Asset Management (Hungary) | 15,104 | 9,747 | (35) |
| Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[12] | 104 | 77 | (26) |
| Other Hungarian Subsidiaries | 9,498 | 8,241 | (13) |
| Other Foreign Subsidiaries[13] | 232 | 108 | (53) |
| Corporate Centre[14] | 3,478 | (569) | (116) |
| Eliminations | 1,377 | (101) | (107) |
| | | | |
| Total adjusted after tax profit of HUNGARIAN subsidiaries[15] | 227,527 | 184,282 | (19) |
| Total adjusted after tax profit of FOREIGN subsidiaries[16] | 191,525 | 125,986 | (34) |
| Share of foreign profit contribution | 46% | 41% | (5) |

[4] Belonging footnotes are in the Supplementary data section of the Report.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| Main components of the adjusted Statement of recognized income | 2019 | 2020 | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| **Adjustments (total)** | **(6,470)** | **(50,631)** | **683** |
| Dividends and net cash transfers (after tax) | 505 | 213 | (58) |
| Goodwill/investment impairment charges (after tax) | (8,427) | 886 | (111) |
| Special tax on financial institutions (after corporate income tax) | (16,170) | (17,365) | 7 |
| Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia (after corporate income tax) | 0 | (28,262) | |
| Impact of fines imposed by the Hungarian Competition Authority (after tax) | 0 | 749 | |
| Effect of acquisitions (after tax) | 19,265 | (6,852) | (136) |
| One-off impact of regulatory changes related to FX consumer contracts in Serbia | (1,644) | 0 | (100) |
| **Consolidated adjusted after tax profit without the effect of adjustments** | **419,052** | **310,268** | **(26)** |
| **Before tax profit** | **465,973** | **351,802** | **(25)** |
| **Operating profit** | **510,045** | **537,437** | **5** |
| **Total income** | **1,077,727** | **1,169,920** | **9** |
| **Net interest income** | **706,298** | **788,079** | **12** |
| **Net fees and commissions** | **282,504** | **293,112** | **4** |
| **Other net non-interest income** | **88,926** | **88,729** | **0** |
| Foreign exchange result, net | 45,177 | 44,927 | (1) |
| Gain/loss on securities, net | 12,372 | 14,193 | 15 |
| Net other non-interest result | 31,376 | 29,610 | (6) |
| **Operating expenses** | **(567,682)** | **(632,483)** | **11** |
| Personnel expenses | (280,002) | (312,495) | 12 |
| Depreciation | (56,383) | (70,286) | 25 |
| Other expenses | (231,298) | (249,702) | 8 |
| **Total risk costs** | **(47,107)** | **(187,995)** | **299** |
| Provision for impairment on loan and placement losses | (29,474) | (158,421) | 437 |
| Other provision | (17,633) | (29,574) | 68 |
| **Total one-off items** | **3,034** | **2,360** | **(22)** |
| Gain on the repurchase of own Upper and Lower Tier2 Capital | 0 | 0 | |
| Result of the treasury share swap agreement at OTP Core | 3,034 | 2,360 | (22) |
| **Corporate taxes** | **(46,921)** | **(41,534)** | **(11)** |
| Indicators | 2019 | 2020 | %/pps |
| ROE (from accounting net earnings) | 20.3% | 10.9% | (9.4) |
| ROE (from adjusted net earnings) | 20.6% | 13.0% | (7.6) |
| ROA (from adjusted net earnings) | 2.4% | 1.4% | (1.0) |
| Operating profit margin | 2.97% | 2.47% | (0.50) |
| Total income margin | 6.28% | 5.37% | (0.91) |
| Net interest margin | 4.12% | 3.61% | (0.51) |
| Net fee and commission margin | 1.65% | 1.34% | (0.31) |
| Net other non-interest income margin | 0.52% | 0.41% | (0.11) |
| Cost-to-asset ratio | 3.31% | 2.90% | (0.41) |
| Cost/income ratio | 52.7% | 54.1% | 1.4 |
| Provision for impairment on loan and placement losses-to-average gross loans | 0.28% | 1.15% | 0.87 |
| Total risk cost-to-asset ratio | 0.27% | 0.86% | 0.59 |
| Effective tax rate | 10.1% | 11.8% | 1.7 |
| Non-interest income/total income | 34% | 33% | (1) |
| EPS base (HUF) (from unadjusted net earnings) | 1,576 | 1,004 | (36) |
| EPS diluted (HUF) (from unadjusted net earnings) | 1,575 | 1,003 | (36) |
| EPS base (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| EPS diluted (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| Comprehensive Income Statement | 2019 | 2020 | % |
| Consolidated after tax profit | 412,582 | 259,636 | (37) |
| Fair value changes of financial instruments measured at fair value through other comprehensive income | 30,224 | (4,764) | (116) |
| Fair value adjustment of derivative financial instruments designated as cash-flow hedge | 11 | (2) | (118) |
| Net investment hedge in foreign operations | (2,526) | (8,591) | 240 |
| Foreign currency translation difference | 79,440 | 68,593 | (14) |
| Change of actuarial costs (IAS 19) | (161) | 144 | (189) |
| **Net comprehensive income** | **519,570** | **315,016** | **(39)** |
| o/w Net comprehensive income attributable to equity holders | 518,802 | 315,239 | (39) |
| Net comprehensive income attributable to non-controlling interest | 768 | (223) | (129) |
| Average exchange rate[1] of the HUF | 2019 HUF | 2020 HUF | Change % |
| HUF/EUR | 325 | 351 | 7 |
| HUF/CHF | 292 | 328 | 11 |
| HUF/USD | 291 | 308 | 6 |

[1] Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

## ASSET-LIABILITY MANAGEMENT

### *Similar to previous periods OTP Group maintained a strong and safe liquidity position…*

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (ECB repo eligible security portfolio on Group level is close to EUR 1.3 billion).

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2020 the gross liquidity buffer was around EUR 8.9 billion equivalent. In addition to this, significant part of the Bulgarian excess liquidity (ca. EUR 1.2 billion) was placed locally due to the Bulgarian regulation at the end of December. Level of these buffers is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks.

The volume of issued securities increased by HUF 150 billion y-o-y, mainly because of the change of net volume of mortgage bonds issued by OTP Mortgage bank due to the issuance and cancellation of mortgage bonds in 2020. In 2020 HUF 22 billion retail and structured bond have been matured, now the volume is HUF 16 billion.

The volume of subordinated debt increased by HUF 17 billion y-o-y, mainly due to the HUF weakening against the EUR, since subordinated bond issuance did not happen in 2020.

### *…and kept its interest-rate risk exposures low*

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

### *Market Risk Exposure of OTP Group*

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 28.9 billion in total.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank.

The main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million), kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. The strategic open FX position was partially closed in 4Q 2020.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

| Main components of the adjusted balance sheet | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **TOTAL ASSETS** | **20,121,767** | **23,335,841** | **16** |
| Cash, amounts due from Banks and balances with the National Banks | 1,841,963 | 2,432,314 | 32 |
| Placements with other banks, net of allowance for placement losses | 410,433 | 1,148,987 | 180 |
| Financial assets at fair value through profit or loss | 251,991 | 235,194 | (7) |
| Securities at fair value through other comprehensive income | 2,427,537 | 2,140,118 | (12) |
| Net customer loans | 12,247,519 | 13,528,586 | 10 |
| **Net customer loans (FX adjusted[1])** | **12,902,518** | **13,528,586** | **5** |
| Gross customer loans | 12,942,009 | 14,363,281 | 11 |
| **Gross customer loans (FX adjusted[1])** | **13,605,264** | **14,363,281** | **6** |
| o/w Retail loans | 7,930,058 | 8,309,033 | 5 |
| Retail mortgage loans (incl. home equity) | 3,671,413 | 3,818,847 | 4 |
| Retail consumer loans | 3,235,843 | 3,484,172 | 8 |
| SME loans | 1,022,802 | 1,006,014 | (2) |
| Corporate loans | 5,101,177 | 5,409,732 | 6 |
| Loans to medium and large corporates | 4,694,688 | 4,935,682 | 5 |
| Municipal loans | 406,490 | 474,049 | 17 |
| Car financing loans | 574,029 | 644,516 | 12 |
| Allowances for loan losses | (694,490) | (834,695) | 20 |
| Allowances for loan losses (FX adjusted[1]) | (702,746) | (834,695) | 19 |
| Associates and other investments | 20,822 | 52,443 | 152 |
| Securities at amortized costs | 1,995,627 | 2,625,952 | 32 |
| Tangible and intangible assets, net | 605,673 | 589,878 | (3) |
| o/w Goodwill, net | 105,298 | 101,393 | (4) |
| Tangible and other intangible assets, net | 500,375 | 488,485 | (2) |
| Other assets | 320,201 | 582,368 | 82 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **20,121,767** | **23,335,841** | **16** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss | 846,158 | 1,219,446 | 44 |
| Deposits from customers | 15,522,654 | 17,890,863 | 15 |
| **Deposits from customers (FX adjusted[1])** | **16,260,599** | **17,890,863** | **10** |
| o/w Retail deposits | 11,805,158 | 12,810,762 | 9 |
| Household deposits | 9,722,990 | 10,614,696 | 9 |
| SME deposits | 2,082,168 | 2,196,066 | 5 |
| Corporate deposits | 4,440,881 | 5,071,626 | 14 |
| Deposits to medium and large corporates | 3,637,487 | 4,218,727 | 16 |
| Municipal deposits | 803,394 | 852,899 | 6 |
| Accrued interest payable related to customer deposits | 14,560 | 8,474 | (42) |
| Liabilities from issued securities | 393,167 | 464,213 | 18 |
| o/w Retail bonds | 3,237 | 1,326 | (59) |
| Liabilities from issued securities without retail bonds | 389,930 | 462,888 | 19 |
| Other liabilities | 818,561 | 949,502 | 16 |
| Subordinated bonds and loans[2] | 249,937 | 274,704 | 10 |
| **Total shareholders' equity** | **2,291,288** | **2,537,112** | **11** |
| Indicators | 2019 | 2020 | pps |
| Loan/deposit ratio (FX adjusted[1]) | 84% | 80% | (4) |
| Net loan/(deposit + retail bond) ratio (FX adjusted[1]) | 79% | 76% | (3) |
| Stage 1 loan volume under IFRS 9 | 11,489,554 | 11,544,766 | 0 |
| Stage 1 loans under IFRS9/gross customer loans | 88.8% | 80.4% | (8.4) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.0% | 0.0 |
| Stage 2 loan volume under IFRS 9 | 685,885 | 1,998,867 | 191 |
| Stage 2 loans under IFRS9/gross customer loans | 5.3% | 13.9% | 8.6 |
| Own coverage of Stage 2 loans under IFRS 9 | 10.7% | 10.4% | (0.3) |
| Stage 3 loan volume under IFRS 9 | 766,570 | 819,647 | 7 |
| Stage 3 loans under IFRS9/gross customer loans | 5.9% | 5.7% | (0.2) |
| Own coverage of Stage 3 loans under IFRS 9 | 65.2% | 62.3% | (2.9) |
| 90+ days past due loan volume | 541,467 | 543,713 | 0 |
| 90+ days past due loans/gross customer loans | 4.2% | 3.8% | (0.4) |
| Consolidated capital adequacy - Basel3 | 2019 | 2020 | %/pps |
| Capital adequacy ratio (consolidated, IFRS) | 16.8% | 17.7% | 1.0 |
| Tier1 ratio | 14.4% | 15.4% | 1.0 |
| Common Equity Tier 1 ('CET1') capital ratio | 14.4% | 15.4% | 1.0 |
| Regulatory capital (consolidated) | 2,390,688 | 2,669,806 | 12 |
| o/w Tier1 Capital | 2,055,106 | 2,316,118 | 13 |
| o/w Common Equity Tier 1 capital | 2,055,106 | 2,316,118 | 13 |
| Tier2 Capital | 335,582 | 353,688 | 5 |
| o/w Hybrid Tier2 | 89,935 | 89,935 | 0 |
| Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk) | 14,262,197 | 15,046,888 | 6 |
| o/w RWA (Credit risk) | 12,529,878 | 13,389,536 | 7 |
| RWA (Market & Operational risk) | 1,732,319 | 1,657,352 | (4) |
| Closing exchange rate of the HUF | 2019 HUF | 2020 HUF | Change % |
| HUF/EUR | 331 | 365 | 10 |
| HUF/CHF | 304 | 337 | 11 |
| HUF/USD | 295 | 297 | 1 |

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

## OTP BANK'S HUNGARIAN CORE BUSINESS

**OTP Core Statement of recognized income:**

| Main components of the Statement of recognised income | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 190,956 | 159,303 | (17) |
| Corporate income tax | (12,668) | (16,558) | 31 |
| Pre-tax profit | 203,624 | 175,860 | (14) |
| Operating profit | 173,995 | 181,178 | 4 |
| Total income | 432,013 | 453,634 | 5 |
| Net interest income | 261,754 | 286,448 | 9 |
| Net fees and commissions | 126,911 | 130,470 | 3 |
| Other net non-interest income | 43,349 | 36,717 | (15) |
| Operating expenses | (258,018) | (272,457) | 6 |
| Total risk costs | 26,594 | (7,677) | (129) |
| Provision for impairment on loan and placement losses | 30,332 | 2,374 | (92) |
| Other provisions | (3,737) | (10,052) | 169 |
| Total one-off items | 3,034 | 2,360 | (22) |
| Revaluation result of the treasury share swap agreement | 3,034 | 2,360 | (22) |
| **Indicators** | **2019** | **2020** | **pps** |
| ROE | 11.7% | 9.3% | (2.4) |
| ROA | 2.1% | 1.5% | (0.6) |
| Operating profit margin | 1.9% | 1.7% | (0.2) |
| Total income margin | 4.82% | 4.34% | (0.48) |
| Net interest margin | 2.92% | 2.74% | (0.18) |
| Net fee and commission margin | 1.42% | 1.25% | (0.17) |
| Net other non-interest income margin | 0.48% | 0.35% | (0.13) |
| Operating costs to total assets ratio | 2.9% | 2.6% | (0.3) |
| Cost/income ratio | 59.7% | 60.1% | 0.3 |
| Provision for impairment on loan and placement losses/average gross loans[1] | (0.88%) | (0.06%) | 0.82 |
| Effective tax rate | 6.2% | 9.4% | 3.2 |

[1] Negative Provision for impairment on loan and placement losses/average gross loans ratio implies positive amount on the Provision for impairment on loan and placement losses line.

**Main components of OTP Core's Statement of financial position:**

| Main components of balance sheet closing balances | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| Total Assets | 9,641,692 | 11,492,949 | 19 |
| Net customer loans | 3,740,975 | 4,415,778 | 18 |
| **Net customer loans (FX adjusted)** | **3,809,093** | **4,415,778** | **16** |
| Gross customer loans | 3,883,412 | 4,631,974 | 19 |
| **Gross customer loans (FX adjusted)** | **3,954,333** | **4,631,974** | **17** |
| Retail loans | 2,377,561 | 2,955,288 | 24 |
| Retail mortgage loans (incl. home equity) | 1,383,805 | 1,534,013 | 11 |
| Retail consumer loans | 746,272 | 1,043,634 | 40 |
| SME loans | 247,483 | 377,642 | 53 |
| Corporate loans | 1,576,772 | 1,676,685 | 6 |
| Loans to medium and large corporates | 1,475,017 | 1,577,900 | 7 |
| Municipal loans | 101,756 | 98,785 | (3) |
| Provisions | (142,437) | (216,196) | 52 |
| **Provisions (FX adjusted)** | **(145,240)** | **(216,196)** | **49** |
| Deposits from customers + retail bonds | 6,770,161 | 8,083,488 | 19 |
| **Deposits from customers + retail bonds (FX adjusted)** | **6,861,433** | **8,083,488** | **18** |
| Retail deposits + retail bonds | 4,562,600 | 5,369,294 | 18 |
| Household deposits + retail bonds | 3,609,460 | 4,231,931 | 17 |
| *o/w: Retail bonds* | 3,237 | 1,326 | (59) |
| SME deposits | 953,140 | 1,137,363 | 19 |
| Corporate deposits | 2,298,834 | 2,714,194 | 18 |
| Deposits to medium and large corporates | 1,658,191 | 1,961,483 | 18 |
| Municipal deposits | 640,643 | 752,711 | 17 |
| Liabilities to credit institutions | 445,301 | 858,230 | 93 |
| Issued securities without retail bonds | 436,340 | 513,860 | 18 |
| Total shareholders' equity | 1,720,872 | 1,766,639 | 3 |
| Loan Quality | 2019 | 2020 | %/pps |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 3,550,841 | 3,606,490 | 2 |
| Stage 1 loans under IFRS 9/gross customer loans | 91.4% | 77.9% | (13.5) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.8% | 0.8% | 0.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 163,954 | 833,163 | 408 |
| Stage 2 loans under IFRS 9/gross customer loans | 4.2% | 18.0% | 13.8 |
| Own coverage of Stage 2 loans under IFRS 9 | 12.4% | 10.1% | (2.3) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 168,618 | 192,321 | 14 |
| Stage 3 loans under IFRS 9/gross customer loans | 4.3% | 4.2% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 55.4% | 54.5% | (0.9) |
| 90+ days past due loan volume (in HUF million) | 123,895 | 144,816 | 17 |
| 90+ days past due loans/gross customer loans | 3.2% | 3.1% | (0.1) |
| Market Share | 2019 | 2020 | pps |
| Loans | 22.2% | 23.0% | 0.8 |
| Deposits | 27.7% | 25.4% | (2.3) |
| Total Assets | 28.8% | 25.7% | (3.1) |
| Performance Indicators | 2019 | 2020 | pps |
| Net loans to (deposits + retail bonds) (FX adjusted) | 56% | 55% | (1) |
| Leverage (closing Shareholder's Equity/Total Assets) | 17.8% | 15.4% | (2.5) |
| Leverage (closing Total Assets/Shareholder's Equity) | 5.6x | 6.5x | 0.9x |
| Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS) | 27.6% | 26.7% | (0.8) |
| Common Equity Tier 1 ratio (OTP Bank, non-consolidated, Basel3, IFRS) | 23.6% | 22.5% | (1.0) |

- ***In 2020 as a whole, OTP Core's adjusted profit amounted to HUF 159.3 billion, marking a y-o-y decline of 17%, owing to higher risk costs***
- ***All components of the total income margin declined in 2020 (-48 bps y-o-y)***
- ***Whereas the underlying loan quality trends remained favourable, the rise in the ratio of Stage 2 loans stemmed from the Bank's more conservative customer assessment. The ratio of Stage 3 loans even decreased y-o-y***
- ***Performing loans grew dynamically (+19% y-o-y FX-adjusted), mostly driven by the subsidized baby loans and FGS Go! loans. Deposits rose by 18% y-o-y***

*Starting from 1Q 2020, OTP eBIZ Ltd became part of OTP Core. It reported HUF 0.4 billion loss in full-year 2019.*

*Starting from 1Q 2020, the accounting method of the termination of swap contracts has changed. Upon the termination of swap deals, until the end of 2019, the FVA booked within other income was shifted to the net interest income line. From 1Q 2020 this shift does not occur. In the case of OTP Core, the intra-group swaps, typically with DSK Bank, are being terminated. In 2019 the other income of OTP Core was boosted, whereas the net interest income was reduced by the above accounting method.*

### *P&L developments*

In 2020, **OTP Core's** adjusted after-tax profit amounted to HUF 159.3 billion, 17% less than a year earlier. The drop owed a lot to higher total risk costs, while operating profit improved by 4%, largely benefiting from a continued dynamic loan growth.

Within full-year total income, net interest income grew at the strongest rate, 9%, thanks to a dynamic organic growth in loans – this was somewhat offset by the 18 bps y-o-y erosion of net interest margin. The latter was reasoned mainly by lower lending interest rate levels, owing to the strong competition. In the fourth quarter, net interest income benefited a total HUF 0.5 billion from items that arose in 4Q when, under the modification of its accounting policy, the Bank re-classified retail loans with subsidized interest rates from loans at amortized cost to loans measures at fair value through profit or loss[5].

Short-term interbank rates, which are the reference rates for variable rate loans, rose overall in 2020: the 3M BUBOR's closing value rose to 75 bps by end-2020, from 16 bps at the end of 2019, while its annual average rate rose by 50 bps, to 69 bps.

The annual net fees and commissions grew by HUF 3.6 billion, or 3% y-o-y. The main reason for the modest growth was the pandemic-induced decline in economic activity and transaction volumes: reversing a 15% y-o-y growth in 1Q, there was 7% decline in 2Q, 3% drop in 3Q from the previous year, but the growth rate returned to positive territory in 4Q, even without a one-off item booked in 4Q 2020: the shifting of subsidized retail loans to loans at fair value had HUF 2.7 billion positive effect[6] on net fees. Among the components of the annual fee income, deposits, transactions- and card-related fee revenues rose modestly, while commissions from securities dropped, particularly those relating to the distribution of investment funds[7] and retail government bonds. The latter was partly explained by base effect: thanks to the outstanding sales performance, the volume of the *MÁP Plus* retail government bonds expanded significantly after its launch in June 2019. Secondly, revenues realized in 2020 declined in relation to the distribution fee structure, largely as average retail government bond volumes shrank q-o-q in the second quarter of 2020, bringing down retail government bond distribution fee revenues in 2Q.

Full-year other net non-interest income (without one-offs) dropped by 15% y-o-y, or HUF 6.6 billion, dragged down by lower gain on securities in 1Q 2020, and by the fact that recoveries realized on claims bought by OTP Factoring from non-Group parties were presented under risk costs, rather than other income, starting from 2020. In 2020, nearly HUF 3.8 billion revaluation result appeared within other income in the wake of the revision of Visa Inc.'s class C shares' accounting classification.

In 2020, operating expenses grew by 6%, or HUF 14.4 billion, chiefly because of higher depreciation, and to a lesser extent due to administrative expenses, including hardware and office equipment costs, as well as supervisory fees (the latter jumped by HUF 3 billion y-o-y, to HUF 13.3 billion). In 2020 as a whole, the extra cost of protection against the pandemic and OTP Bank's donations entailed HUF 4 billion extra expenses. As a favourable development, personnel expenses slightly dropped y-o-y, in part because of lower bonus payments and partly as employers' contributions were reduced by a further two percentage points from July 2020. The average number of employees grew by 5% y-o-y.

In 2020, total risk costs amounted to -HUF 7.7 billion, as opposed to +HUF 26.6 billion in 2019. The main reason for the higher risk costs was that the pandemic-induced change in the macroeconomic environment was incorporated in the calculation of impairments. As a result, the IFRS 9 impairment model parameters were revised several times in the course of 2020, entailing higher risk costs. Throughout 2020, the Bank steadily monitored changes to customers' financial position and behaviour even during the loan repayment moratorium, and sought to identify debtors with increased risk profile. As a result, certain exposures – some of them under the debt repayment moratorium – were reclassified as Stage 2 during 2020, which also added to risk costs. These effects were mitigated by the positive risk costs booked in relation to the portfolio managed by OTP Factoring, the Hungarian work-out company, largely relating to claims toward households. This included the continued recoveries realized on these claims, whereas in 4Q 2020 another positive item

[5] The modification of the accounting policy was applied retroactively: the P&L items that concerned the previous years were accounted against shareholders' equity, while the reporting year's items were booked in the P&L, in one lump sum in 4Q 2020.

[6] Because of the reclassification of loans, two major items appeared among net fees: first, the commissions due in 2020, which would have been amortized over the whole maturity according to the previous method, were recognized in the P&L in one lump sum in December (HUF 1.3 billion). Second, the fees received after the end-of-the-year volume of baby loans were recorded amongst the net fees and commissions (HUF 1.4 billion), while under the previous accounting policy, this amount would have been recognized in the outstanding baby loan volumes at amortized cost.

[7] In 2Q 2020, because of technical reasons, lower fee income was booked from the sales of investment funds. At OTP Core, much of this type of income is related to the funds managed by the Group's Hungarian fund managers, and is presented at these asset management companies as commission expenditure, thus at Group level, this item did not affect the q-o-q dynamics of net fees and commissions.

emerged as a result of the revision of the expected future recoveries from OTP Factoring's claims; the upward revaluation of such claims also resulted in a growth in net loan volumes classified as Stage 3 (while the stock of impairments in the balance sheet did not change).

Regarding loan quality trends, new defaults did not seem to have jumped: while the volume of more than 90 days past due (DPD90+) loans grew by HUF 4 billion in 1Q 2020, these volumes contracted by HUF 3 billion each in 2Q, 3Q, and 4Q (FX-adjusted, without sales/write-offs, adjusted for the revaluation of OTP Factoring's claims in 4Q). This led to a HUF 5 billion decrease in full-year 2020, the same as the 2019 figure. In the whole of 2020, HUF 10 billion non-performing loans were sold/written off (FX-adjusted).

Predominantly as a result of the abovementioned reclassifications, the ratio of Stage 2 loans grew to 18% by the end of December, up from 4.2% at the end of 2019, and from 11.7% in the previous quarter. Even though those reclassifications into Stage 2 reduced the own coverage of both Stage 1 and Stage 2 loans in 2020, but the total Stage 1+2 portfolio's own provision coverage nearly doubled in 2020 (2019: 1.3%, 2020: 2.5%).

### *Balance sheet trends*

In 2020, the balance sheet total expanded by 19% (+HUF 1.851 billion). A larger part of that growth came from customer deposits (+HUF 1.315 billion), and a smaller increase was caused by a y-o-y growth in liabilities to credit institutions (+HUF 413 billion). One reason for the latter was that the repo volumes, previously presented on the medium and large corporate deposits line, picked up from zero at the end of 2019, and was moved to this line, starting from 2020.

Gross loans and performing (Stage 1+2) loans grew at similar rates, by 17% in 2020 (FX-adjusted), while performing loans surged 21% in 2019.

OTP Core's performing loans rose by 5% q-o-q in 1Q, by 2% in 2Q, by 5% in 3Q, and by 4% 4Q (all FX-adjusted) – that is, the pandemic and the related restrictions somewhat decelerated loan growth in 2Q, but it could climb back to average pre-pandemic quarterly levels in the second half-year. This was mostly the result of the effective economy protection measures, particularly of the government's and the National Bank of Hungary's subsidized lending programs: in full-year 2020, growth in subsidized loans (baby loans, FGS Go!, CSOK Housing Subsidy for Families scheme) contributed 84% of the total FX-adjusted increase in performing loans. Meanwhile, the dynamic lending activity helped OTP Bank preserve, or in some cases even improve, its market share in the main loan categories.

In addition, starting from the second quarter of 2020, existing loan volumes also benefited from the fact that, in the case of loans that participated in the debt repayment moratorium, the principal was not amortized, and the deferred interest was presented as part of the gross loan volume (however, the regulation bans charging interest on the unpaid interest).

Regarding the individual product categories, the subsidized baby loan was the engine of consumer loan growth: in 2020, the contractual amount of baby loans at OTP Bank hit HUF 257 billion, thus the Bank's market share reached 41.7% in 2020. In line with expectations, the quarterly contractual amount of baby loans has been following a slightly declining path since the product was launched in July 2019, owing to the features of the structure (1Q 2020: HUF 72 billion, 2Q: HUF 59 billion, 3Q: HUF 65 billion, 4Q: HUF 61 billion).

Market-based cash loan disbursements fell by 46% overall in 2020. The declining disbursements from 2Q 2020 can be attributed to the introduction of a cap on interest rates on newly disbursed, non-mortgage-backed consumer loans, effective from 19 March 2020 until end-2020, as well as to the related tightening in lending standards. OTP Bank's markets share calculated from cash loan placements was 34.8% in full-year 2020, down from 38.9% in 2019. The stock of performing cash loans expanded by 15% y-o-y, partly supported by the declining amortization due to the repayment moratorium.

As for mortgage loans, the steady growth in performing volumes continued, bringing the y-o-y dynamics to 11%. Within that, housing loans, which make up 85% of the overall mortgage stock, expanded by 14% y-o-y, while home equity loans, which were less popular in recent years, shrank further (-6% y-o-y).

In full year 2020, applications for mortgage loans subsided 7% y-o-y. However, the disbursed amount grew by 15% y-o-y in 2020, owing to the surge in subsidized loan placement.

OTP Bank's market share in new mortgage loan contractual amounts hit 32.0% in 2020 (up from 31.4% in 2019). The improvement owed mainly to the CSOK family housing benefit scheme, which was expanded in July 2019, thus bolstering demand for subsidized loans: in the subsidized housing loan segment, OTP's market share has been traditionally strong.

Regarding corporate lending activity, performing corporate loans reversed the strong growth seen in recent years and in the first quarter of 2020 (+5% q-o-q): they declined by 1% q-o-q in 2Q 2020, then picked up that much in 3Q, and grew 3% q-o-q in 4Q. This brought the annual growth rate to 7% in 2020.

The outstanding expansion in loans to micro and small enterprises continued: their performing loan volumes grew by 55% y-o-y (FX-adjusted), marking an impressive acceleration from the 14% growth in 2019. This owed a lot to the National Bank of Hungary's *Funding for Growth Go!* scheme, which has been available at OTP Bank since the end of April 2020. By the end of December 2020, their contractual amount reached HUF 362 billion, thus OTP Bank's market share has surpassed 25% since the programme started.

The share of investments in subsidiaries, held on OTP Core's asset side, within the balance sheet total rose by an average of 1 pp y-o-y in 2020, to 13.1%, fundamentally driving the growing share of non-interest-bearing assets in the balance sheet.

OTP Core's customer deposits increased by 18% y-o-y (FX-adjusted). Household deposits remained on a dynamic growth path (+3% q-o-q in 1Q 2020, +6% in 2Q, +2% in 3Q, and +5% in 4Q). The net loan / (deposit + retail bond) ratio stood at 55% at the end of 2020, which is consistent with 1 pp y-o-y decline.

OTP Bank's capital adequacy ratio (CAR) stood at 26.7% at the end of 2020, while the CET1 = Tier 1 ratio was at 22.5%. The Bank's regulatory capital at the end of the reporting period did not include the eligible profit made in the reporting period.

## *OTP FUND MANAGEMENT (HUNGARY)*

**Changes in assets under management and financial performance of OTP Fund Management:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 15,104 | 9,747 | (35) |
| Income tax | (1,438) | (915) | (36) |
| Profit before income tax | 16,542 | 10,662 | (36) |
| Operating profit | 16,542 | 10,662 | (36) |
| Total income | 20,433 | 14,453 | (29) |
| Net interest income | 0 | 0 | 0 |
| Net fees and commissions | 19,800 | 14,154 | (29) |
| Other net non-interest income | 633 | 299 | (53) |
| Operating expenses | (3,891) | (3,791) | (3) |
| Other provision | 0 | (1) | 0 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 33,688 | 33,210 | (1) |
| Total shareholders' equity | 24,828 | 16,425 | (34) |
| **Asset under management** | **2019 HUF billion** | **2020 HUF billion** | **%** |
| **Assets under management, total (w/o duplicates)[1]** | **1,119** | **1,201** | **7** |
| Volume of investment funds (closing, w/o duplicates) | 793 | 828 | 4 |
| Volume of managed assets (closing) | 326 | 373 | 14 |
| **Volume of investment funds (closing, with duplicates)[2]** | **1,073** | **1,183** | **10** |
| absolute return fund | 434 | 374 | (14) |
| bond | 315 | 376 | 19 |
| security | 188 | 248 | 32 |
| mixed | 73 | 133 | 82 |
| commodity market | 30 | 28 | (7) |
| guaranteed | 28 | 20 | (29) |
| money market | 6 | 5 | (17) |
| derivative | 0 | 0 | 0 |
| other | 0 | 0 | 0 |

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.

In 2020, **OTP Fund Management** generated HUF 9.7 billion profit, 35% less than in the previous year.

The y-o-y drop in full-year net fees and commissions was caused by a base effect: it largely reflected the effect of the income from an outstanding success fee at the end of 2019.

Unlike in 2019, when the success fee was mostly related to the OTP Supra Derivative Fund's performance, in 2020 it was the OTP Treasures of the Earth Derivative Fund, and a number of other derivative and absolute return funds' performance that determined it. The OTP Treasures of the Earth Derivative Fund absolute return fund's yield exceeded 49% in 2020, and the success fee is 20% of the positive difference between the fund's yield and the ZMAX benchmark index.

The main reason for the y-o-y drop in the annual other income was the negative fair value adjustment of own investment units, recorded in 1Q 2020.

Operating expenses dropped by 3% y-o-y in 2020.

In Hungary, the market environment for investment funds was rather hectic; following the lows hit in the first quarter, the situation consolidated, and the turbulent changes reshuffled investment funds' structure as well.

Following its extraordinary performance in 2019, Hungary's largest absolute return fund, OTP Supra Derivative Fund made negative yield in 2020, but it worked off some of the losses after hitting its lowest in March. Absolute return funds, as well as technology and climate change related funds were particularly popular in 2020.

The positive capital flow and yields helped OTP Fund Management increase the total wealth managed in y-o-y terms (by +4%).

Of the funds managed, demand for bond funds remained steady; their volume expanded by nearly 20% y-o-y. Following the slump in stock prices in March, demand for equity funds has increased, thus their volumes grew by 32% y-o-y, on account of capital inflow and favourable yield developments.

The Company's market share rose by 1 pp y-o-y, to 24.6% by the end of December 2020, thus preserving its top position in the domestic securities funds market.

## MERKANTIL GROUP (HUNGARY)

**Performance of Merkantil Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 7,115 | 7,661 | 8 |
| Income tax | (632) | (956) | 51 |
| Profit before income tax | 7,747 | 8,617 | 11 |
| Operating profit | 7,372 | 10,280 | 39 |
| Total income | 14,369 | 21,283 | 48 |
| Net interest income | 14,013 | 17,688 | 26 |
| Net fees and commissions | (104) | 40 | (138) |
| Other net non-interest income | 461 | 3,555 | 671 |
| Operating expenses | (6,997) | (11,004) | 57 |
| Total provisions | 375 | (1,663) | (543) |
| Provision for impairment on loan and placement losses | 143 | (1,491) | |
| Other provision | 232 | (171) | (174) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 491,399 | 667,120 | 36 |
| Gross customer loans | 366,064 | 416,987 | 14 |
| Gross customer loans (FX-adjusted) | 368,689 | 416,987 | 13 |
| Retail loans | 30,528 | 57,018 | 87 |
| Corporate loans | 128,707 | 119,725 | (7) |
| Car financing loans | 209,454 | 240,244 | 15 |
| Allowances for possible loan losses | (10,072) | (12,874) | 28 |
| Allowances for possible loan losses (FX-adjusted) | (10,143) | (12,874) | 27 |
| Deposits from customers | 10,414 | 9,344 | (10) |
| Deposits from customer (FX-adjusted) | 10,414 | 9,344 | (10) |
| Retail deposits | 8,051 | 6,071 | (25) |
| Corporate deposits | 2,364 | 3,273 | 38 |
| Liabilities to credit institutions | 420,076 | 584,944 | 39 |
| Total shareholders' equity | 44,441 | 52,553 | 18 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 345,339 | 343,668 | 0 |
| Stage 1 loans under IFRS 9/gross customer loans | 94.3% | 82.4% | (11.9) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.2% | (0.1) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 7,459 | 58,592 | 686 |
| Stage 2 loans under IFRS 9/gross customer loans | 2.0% | 14.1% | 12.0 |
| Own coverage of Stage 2 loans under IFRS 9 | 4.7% | 3.8% | (0.8) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 13,267 | 14,727 | 11 |
| Stage 3 loans under IFRS 9/gross customer loans | 3.6% | 3.5% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 63.4% | 66.5% | 3.1 |
| Provision for impairment on loan and placement losses/average gross loans | (0.04%) | 0.38% | 0.42 |
| 90+ days past due loan volume (in HUF million) | 7,364 | 8,971 | 22 |
| 90+ days past due loans/gross customer loans | 2.0% | 2.2% | 0.1 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.6% | 1.3% | (0.3) |
| ROE | 17.4% | 15.7% | (1.6) |
| Total income margin | 3.20% | 3.58% | 0.37 |
| Net interest margin | 3.12% | 2.97% | (0.15) |
| Cost/income ratio | 48.7% | 51.7% | 3.0 |

*The column for 2020 in the table display the partially consolidated performance of Merkantil Group, including Merkantil Bank Ltd., Merkantil Bérlet Ltd., NIMO 2002 Ltd., SPLC-P Ingatlanfejlesztő, Ingatlanhasznosító Ltd., SPLC Vagyonkezelő Ltd., and OTP Ingatlanlízing Ltd. In the 2019 base period, the standalone performance of Merkantil Bank Ltd. was presented.*

In 2020 **Merkantil Group** generated HUF 7.7 billion adjusted after-tax profit, of which HUF 6.7 billion was Merkantil Bank's contribution, which therefore showed a decrease y-o-y. In 2020, the Group's ROE stood at 15.7%.

The main reason for the y-o-y rise in the income and expense lines is that, starting from 1Q 2020, the figures reflect the performance of the entire Hungarian leasing group. Merkantil Bank's individual net interest income rose by 4% y-o-y, and its operating expenses dropped by 5%. Merkantil Group's total risk cost amounted to -HUF 1.7 billion in 2020.

The stock of DPD90+ loans did not change over 2020 (FX-adjusted, without sales/write-offs).

The ratio of Stage 2 loans grew by 4.6 pps q-o-q. The own provision coverage of Stage 2 loans stood at 3.8% (-0.7 pp q-o-q). Stage 3 loans made up 3.5% of gross loan volumes (-0.7 pp q-o-q), and their own provision coverage was 66.5% (+10.4 pps q-o-q).

Merkantil Group's FX-adjusted performing (Stage 1+2) loans increased by 12% y-o-y. Merkantil Bank's individual performing loan stock grew by 4% y-o-y. The full-year dynamics was positively affected by the National Bank of Hungary's *FGS Go!* programme, made available in April 2020. By the end of December 2020, contractual amount reached HUF 41 billion at Merkantil Bank. Merkantil Bank retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

## IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

## DSK GROUP (BULGARIA)

**Performance of DSK Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 67,879 | 40,957 | (40) |
| Income tax | (7,199) | (3,707) | (49) |
| Profit before income tax | 75,078 | 44,665 | (41) |
| Operating profit | 83,495 | 89,775 | 8 |
| Total income | 155,567 | 166,668 | 7 |
| Net interest income | 109,030 | 111,239 | 2 |
| Net fees and commissions | 42,019 | 45,453 | 8 |
| Other net non-interest income | 4,517 | 9,975 | 121 |
| Operating expenses | (72,071) | (76,893) | 7 |
| Total provisions | (8,418) | (45,110) | 436 |
| Provision for impairment on loan and placement losses | (5,216) | (44,875) | 760 |
| Other provision | (3,201) | (235) | (93) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 3,669,766 | 4,283,625 | 17 |
| Gross customer loans | 2,350,694 | 2,634,870 | 12 |
| Gross customer loans (FX-adjusted) | 2,596,088 | 2,634,870 | 1 |
| Retail loans | 1,597,408 | 1,614,561 | 1 |
| Corporate loans | 953,025 | 938,117 | (2) |
| Car financing loans | 45,655 | 82,191 | 80 |
| Allowances for possible loan losses | (135,640) | (185,829) | 37 |
| Allowances for possible loan losses (FX-adjusted) | (149,830) | (185,829) | 24 |
| Deposits from customers | 3,015,805 | 3,587,364 | 19 |
| Deposits from customers (FX-adjusted) | 3,315,475 | 3,587,364 | 8 |
| Retail deposits | 2,780,781 | 3,012,074 | 8 |
| Corporate deposits | 534,694 | 575,290 | 8 |
| Liabilities to credit institutions | 59,867 | 17,010 | (72) |
| Total shareholders' equity | 528,759 | 620,379 | 17 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 2,081,790 | 2,142,644 | 3 |
| Stage 1 loans under IFRS 9/gross customer loans | 88.6% | 81.3% | (7.3) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.0% | (0.1) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 99,917 | 297,292 | 198 |
| Stage 2 loans under IFRS 9/gross customer loans | 4.3% | 11.3% | 7.0 |
| Own coverage of Stage 2 loans under IFRS 9 | 8.5% | 12.6% | 4.1 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 168,986 | 194,934 | 15 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.2% | 7.4% | 0.2 |
| Own coverage of Stage 3 loans under IFRS 9 | 62.0% | 65.6% | 3.6 |
| Provision for impairment on loan and placement losses/average gross loans | 0.24% | 1.79% | 1.55 |
| 90+ days past due loan volume (in HUF million) | 108,600 | 126,242 | 16 |
| 90+ days past due loans/gross customer loans | 4.6% | 4.8% | 0.2 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.9% | 1.0% | (0.9) |
| ROE | 13.7% | 7.0% | (6.7) |
| Total income margin | 4.28% | 4.13% | (0.15) |
| Net interest margin | 3.00% | 2.75% | (0.25) |
| Cost/income ratio | 46.3% | 46.1% | (0.2) |
| Net loans to deposits (FX-adjusted) | 74% | 68% | (6) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/BGN (closing) | 169.0 | 186.7 | 10 |
| HUF/BGN (average) | 166.3 | 179.5 | 8 |

- ***The Bulgarian banking group generated HUF 41.0 billion adjusted profit, 40% less than a year earlier, owing to the higher provisions.***
- ***The integration of Expressbank was successfully completed at the beginning of May 2020. The number of branches dropped by 24%, and the headcount fell by 9% y-o-y.***

*The P&L of the Bulgarian operation was adjusted for the one-off items directly related to the Expressbank acquisition; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

In 2020 **DSK Group** generated HUF 41.0 billion after-tax profit, 40% less than in 2019.

The integration of Expressbank was successfully completed at the beginning of May 2020. Certain cost synergies had already been extracted during the integration process, and this has continued since then. The number of branches in Bulgaria fell by 143 units (-30%) since the end of 1Q 2019, when Expressbank became part of the Group. The number of employees dropped by 566 (-9%) in 2020. Full-year operating expenses declined by 1% y-o-y in local currency.

The Bulgarian operation's full-year operating profit grew by 8% in HUF (but dropped 1% in BGN terms). Within total income, cumulated net interest income declined by 6% in BGN terms, as a result of the 24 bps erosion in net interest margin. The full-year net interest income was also negatively affected by a regulatory change that banned charging penalty interest on late payment during the emergency, from 13 March to 14 May 2020.

In 2020, net fees and commissions stagnated y-o-y in BGN, predominantly in connection with the drop in economic and business activity from the second quarter.

In 2020, other net non-interest income surged by 121% y-o-y, chiefly because of higher swap result and foreign exchange gains. Another reason was that, following the revision of Visa Inc.'s class C shares' accounting classification, the equivalent of HUF 0.7 billion positive amount boosted other income in 2Q 2020.

The Stage 2 ratio has significantly increased over the past 12 months (+7 pps y-o-y), predominantly because the Bank reclassified the loans most exposed to the pandemic, first corporate and then retail loans were reclassified from Stage 1 (performing) category under IFRS 9 into Stage 2 (increased risk).

The ratio of Stage 3 loans increased by 0.2 pp over the previous year. The own provision coverage of Stage 3 loans rose in y-o-y terms.

In 2020, HUF 45.1 billion total risk costs weighed on profit. The reason for the y-o-y higher figure was the extra provisioning owing to the pandemic. The 12-month credit risk cost ratio was 1.79% of average gross loan volumes.

Overall, loan quality indicators have improved: the more than 90 days past due (DPD90+) loans grew by HUF 22 billion (FX-adjusted, without sales/write-offs) in full year 2020 (of which 4Q: +HUF 5 billion). During 2019 this volume increased by HUF 11 billion without the technical effect of the acquisition of Expressbank. In 2020 as a whole HUF 13 billion worth of problem loans were sold/written off.

Regarding the lending activity, performing (Stage 1+2) loans rose by an FX-adjusted 1% in y-o-y terms. In 2020, car financing loans grew by 80% y-o-y, partly because of the reclassification of some leasing exposures from corporate loans onto this line.

The Bulgarian operation's liquidity position remained stable. The FX-adjusted net loan/deposit ratio stood at 68% at the end of December. At the end of December 2020, the capital adequacy ratio of DSK Bank, calculated according to local rules, stood at 21.4%. In the course of 2020, DSK Bank did not pay dividend to OTP Bank from its 2019 profit, in accordance with the Bulgarian National Bank's recommendation.

## OTP BANK CROATIA

**Performance of OTP Bank Croatia:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 30,719 | 14,830 | (52) |
| Income tax | (6,681) | (2,771) | (59) |
| Profit before income tax | 37,400 | 17,600 | (53) |
| Operating profit | 42,925 | 40,329 | (6) |
| Total income | 85,069 | 84,907 | 0 |
| Net interest income | 56,812 | 58,199 | 2 |
| Net fees and commissions | 17,032 | 16,093 | (6) |
| Other net non-interest income | 11,225 | 10,615 | (5) |
| Operating expenses | (42,144) | (44,578) | 6 |
| Total provisions | (5,525) | (22,728) | 311 |
| Provision for impairment on loan and placement losses | (2,835) | (19,491) | 588 |
| Other provision | (2,691) | (3,238) | 20 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 2,098,951 | 2,325,669 | 11 |
| Gross customer loans | 1,370,057 | 1,642,170 | 20 |
| Gross customer loans (FX-adjusted) | 1,503,015 | 1,642,170 | 9 |
| Retail loans | 812,239 | 853,245 | 5 |
| Corporate loans | 617,623 | 722,320 | 17 |
| Car financing loans | 73,152 | 66,606 | (9) |
| Allowances for possible loan losses | (68,701) | (100,920) | 47 |
| Allowances for possible loan losses (FX-adjusted) | (75,254) | (100,920) | 34 |
| Deposits from customers | 1,478,223 | 1,634,652 | 11 |
| Deposits from customers (FX-adjusted) | 1,613,110 | 1,634,652 | 1 |
| Retail deposits | 1,213,410 | 1,231,516 | 1 |
| Corporate deposits | 399,700 | 403,136 | 1 |
| Liabilities to credit institutions | 253,176 | 287,647 | 14 |
| Total shareholders' equity | 292,649 | 328,165 | 12 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 1,140,495 | 1,257,492 | 10 |
| Stage 1 loans under IFRS 9/gross customer loans | 83.2% | 76.6% | (6.7) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.8% | 0.8% | 0.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 143,843 | 241,962 | 68 |
| Stage 2 loans under IFRS 9/gross customer loans | 10.5% | 14.7% | 4.2 |
| Own coverage of Stage 2 loans under IFRS 9 | 3.5% | 5.7% | 2.2 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 85,719 | 142,716 | 66 |
| Stage 3 loans under IFRS 9/gross customer loans | 6.3% | 8.7% | 2.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 63.6% | 53.9% | (9.6) |
| Provision for impairment on loan and placement losses/average gross loans | 0.22% | 1.27% | 1.05 |
| 90+ days past due loan volume (in HUF million) | 51,012 | 68,712 | 35 |
| 90+ days past due loans/gross customer loans | 3.7% | 4.2% | 0.5 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.6% | 0.7% | (0.9) |
| ROE | 10.9% | 4.7% | (6.2) |
| Total income margin | 4.35% | 3.93% | (0.42) |
| Net interest margin | 2.91% | 2.69% | (0.21) |
| Cost/income ratio | 49.5% | 52.5% | 3.0 |
| Net loans to deposits (FX-adjusted) | 89% | 94% | 6 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/HRK (closing) | 44.4 | 48.4 | 9 |
| HUF/HRK (average) | 43.9 | 46.6 | 6 |

- ***Full-year 2020 profit neared HUF 15 billion (-52% y-o-y), with 6% lower operating profit and a jump in risk costs***
- ***Net interest income rose by 2% y-o-y; performing (Stage 1+2) loans increased in FX-adjusted terms and interest margin shrank 21 bps in 2020***
- ***As to loan quality, the Stage 3 ratio upped 2.4 pps, to 8.7% y-o-y***

In 2020, the **Croatian operation** generated HUF 14.8 billion after-tax profit, 52% less than a year earlier, owing to a jump in risk costs and a decline in operating profit.

Following a halt in lending activity in the second quarter, disbursement dynamics have been steadily improving. In 4Q 2020, mortgage loan disbursements grew by 72% q-o-q; this brought the full-year

disbursement growth to 8% y-o-y. Even though cash loans rebounded after the first wave of the coronavirus pandemic, the full-year disbursed volume was 25% short of its 2019 level.

Performing (Stage 1+2) loans grew by an FX-adjusted 6% y-o-y

Beside loan volume growth, and the Croatian bank's liquidity position remained stable. Deposit volumes rose by an FX-adjusted 1% y-o-y, thus the net loan/deposit ratio went up by 6 pps y-o-y, to 94%, in FX-adjusted terms.

In 2020, operating profit was 6% (in local currency terms 11%) less than a year earlier. Core banking income dropped in y-o-y terms, as a combined effect of the 21 bps erosion in net interest margin (2.69%), and the pandemic's effect on business and economic activity. Net fees and commissions were dragged down by the lost revenue from tourism-related activities. Despite the HUF 1.5 billion one-off revaluation result on Visa Inc.'s class C shares booked in 2Q 2020, other non-interest income was 5% short of the base period.

In 2020, operating expenses surged by 6% y-o-y in HUF, and were stable in local currency. The 3 pps rise in full-year cost/income ratio brought the y-o-y figure to 52.5%.

In 2020, nearly HUF 23 billion risk cost weighed on profit, which was four times the figure posted in 2019. A smaller part of that was recorded in 1Q, in view of the possible effects of the pandemic, while loan loss provision in 3Q was even higher than in 1Q, owing to the revision of the IFRS 9 impairment model parameters. In 4Q 2020 under the instruction of the local regulator exposures with longer than 9 months moratorium participation in total shall be classified as Stage 3.

The stock of more than 90 days past due loans grew by HUF 15 billion (FX-adjusted, without sales/write-offs) in 2020. This brought the DPD90+ ratio to 4.2% by the end of December (+0.5 pp y-o-y). The Stage 3 ratio rose by more than 2 pps in y-o-y terms (4Q: 8.7%), as the Bank reclassified the exposures with longer than 9 months moratorium participation to Stage 3 (forborne) category, in accordance with local regulation.

In March and April 2020, the Croatian National Bank issued a set of recommendations, based on the EBA's guidance, on the basis of which commercial banks developed rules for their own loan repayment moratorium. On 1 October 2020, a new moratorium period was opened; the deadline for receiving applications is 31 March 2021.

## OTP BANK SERBIA

**Performance of OTP Bank Serbia:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 10,430 | 7,298 | (30) |
| Income tax | 459 | (1,157) | (352) |
| Profit before income tax | 9,970 | 8,455 | (15) |
| Operating profit | 13,143 | 35,898 | 173 |
| Total income | 43,276 | 79,001 | 83 |
| Net interest income | 30,809 | 59,514 | 93 |
| Net fees and commissions | 9,506 | 14,766 | 55 |
| Other net non-interest income | 2,962 | 4,721 | 59 |
| Operating expenses | (30,133) | (43,102) | 43 |
| Total provisions | (3,173) | (27,443) | 765 |
| Provision for impairment on loan and placement losses | (1,634) | (22,170) | |
| Other provision | (1,539) | (5,273) | 243 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 1,659,483 | 2,052,332 | 24 |
| Gross customer loans | 1,199,580 | 1,539,738 | 28 |
| Gross customer loans (FX-adjusted) | 1,325,734 | 1,539,738 | 16 |
| Retail loans | 633,684 | 747,715 | 18 |
| Corporate loans | 642,532 | 737,969 | 15 |
| Car financing loans | 49,518 | 54,054 | 9 |
| Allowances for possible loan losses | (18,904) | (43,597) | 131 |
| Allowances for possible loan losses (FX-adjusted) | (20,907) | (43,597) | 109 |
| Deposits from customers | 910,623 | 1,147,712 | 26 |
| Deposits from customers (FX-adjusted) | 1,003,698 | 1,147,712 | 14 |
| Retail deposits | 604,453 | 676,599 | 12 |
| Corporate deposits | 399,245 | 471,112 | 18 |
| Liabilities to credit institutions | 436,449 | 548,354 | 26 |
| Subordinated debt | 24,460 | 31,033 | 27 |
| Total shareholders' equity | 249,461 | 273,046 | 9 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 1,151,763 | 1,367,313 | 19 |
| Stage 1 loans under IFRS 9/gross customer loans | 96.0% | 88.8% | (7.2) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.8% | 0.4 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 21,447 | 132,427 | 517 |
| Stage 2 loans under IFRS 9/gross customer loans | 1.8% | 8.6% | 6.8 |
| Own coverage of Stage 2 loans under IFRS 9 | 5.8% | 8.5% | 2.7 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 26,370 | 39,998 | 52 |
| Stage 3 loans under IFRS 9/gross customer loans | 2.2% | 2.6% | 0.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 50.0% | 53.6% | 3.6 |
| Provision for impairment on loan and placement losses/average gross loans | 0.25% | 1.62% | 1.37 |
| 90+ days past due loan volume (in HUF million) | 20,702 | 22,697 | 10 |
| 90+ days past due loans/gross customer loans | 1.7% | 1.5% | (0.2) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.1% | 0.4% | (0.7) |
| ROE | 7.6% | 2.7% | (4.9) |
| Total income margin | 4.70% | 4.25% | (0.45) |
| Net interest margin | 3.35% | 3.20% | (0.15) |
| Cost/income ratio | 69.6% | 54.6% | (15.1) |
| Net loans to deposits (FX-adjusted) | 130% | 130% | 0 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RSD (closing) | 2.8 | 3.1 | 11 |
| HUF/RSD (average) | 2.8 | 3.0 | 8 |

- ***The annual after-tax profit amounted to HUF 7.3 billion in 2020 (-30%); in 4Q, HUF 3.1 billion loss emerged and nearly HUF 13 billion provision was put aside***
- ***The integration is progressing well, the full-year cost/income ratio sank to 54.6%***
- ***Performing (Stage1+2) loansexpanded by 3% y-o-y***

*The financial closure of Societe Generale banka Srbija transaction was completed on 24 September 2019. Following the transaction, the name of the acquired bank was changed to OTP banka Srbija. The Serbian financial statements present the acquired bank's balance sheet starting from 3Q 2019, and its P&L account starting from 4Q 2019.*

*The Serbian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among the adjustment items. The balance sheet items were not adjusted for these effects.*

In 2020, the **Serbian banking group** generated HUF 7.3 billion adjusted after-tax profit.

Following the financial closure of the acquisition at the end of September 2019, the Serbian operation's total markets share by balance sheet total jumped to 13.5% on pro forma basis, based on the latest available data from end-September 2020.

The integration of the bank acquired in 2019 is in progress. Since the end of September 2019, the total number of branches in Serbia dropped by 23 (-10%). The number of employees declined by 140 workers y-o-y (-4%).

Both deposits and performing loans (Stage 1+2) showed double-digit y-o-y growth rates (FX-adjusted), thus the Serbian bank's net loan/deposit ratio remained flat at 130% y-o-y.

Both the retail and the corporate loan segments posted growth: consumer loans expanded by 22% y-o-y (FX-adjusted), and mortgage loans increased by 13%, while corporate loans, which make up nearly half of the performing (Stage 1+2) portfolio, rose by 14% y-o-y. Recovering from the low hit in the second quarter, the volume of new loan disbursements has been steadily rising.

The y-o-y dynamics of P&L lines were predominantly determined by the acquisition, and they were also affected by the 8% weakening of the HUF's average exchange rate against the Serbian dinar.

The underlying business development trends can be captured the best by analysing the 4Q 2020 y-o-y developments, as those are comparable with the base period and undistorted by the acquisition effects. The 4Q operating profit improved by 16% y-o-y, as income rose by 6% and operating expenses declined. In 4Q, the y-o-y dynamics of net interest income was positively affected by the outstanding expansion of (Stage 1+2) loan volumes (+16% y-o-y; FX-adjusted), even as net interest margin eroded by 32 bps y-o-y, to 3.1%, reflecting the effect of the lower interest rate environment. Net fees and commissions were stable y-o-y in 4Q 2020.

In 4Q, operating expenses dropped by 1% y-o-y, while the bank's cost/income ratio improved by 3.8 pps y-o-y, to 54.9% in the fourth quarter.

In 2020, total risk cost amounted to -HUF 27.4 billion, of which -HUF 12.5 billion was booked in the fourth quarter. In 2020, the credit risk cost ratio was 1.62%.

As regards loan quality, the volume of more than 90 days past due loans (FX-adjusted, without sales/write-offs) rose by HUF 3.3 billion in full year 2020.

The ratio of Stage 3 loans rose by 0.4 pp y-o-y, their own provision coverage ratio improved by 3.6 pps y-o-y, to 53.6% by the end of December. Stage 2 loans were affected by a number factors: in 1Q, the corporate portfolios most exposed to the pandemic were reclassified to Stage 2 (increased risk), while in the second quarter those were mostly retail loans that were shifted.

In Serbia, there were three phases of the loan repayment moratorium. The application deadline for the third one is the end of April 2021; the maximum term of the moratorium can be up to six months.

## SKB BANKA (SLOVENIA)

**Performance of SKB Banka (Slovenia):**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | | 9,665 | |
| Income tax | | (2,439) | |
| Profit before income tax | | 12,104 | |
| Operating profit | | 19,787 | |
| Total income | | 40,388 | |
| Net interest income | | 28,103 | |
| Net fees and commissions | | 11,127 | |
| Other net non-interest income | | 1,158 | |
| Operating expenses | | (20,601) | |
| Total provisions | | (7,683) | |
| Provision for impairment on loan and placement losses | | (6,244) | |
| Other provision | | (1,440) | |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 1,130,871 | 1,353,772 | 20 |
| Gross customer loans | 831,139 | 909,439 | 9 |
| Gross customer loans (FX-adjusted) | 918,174 | 909,439 | (1) |
| Retail loans | 540,374 | 539,678 | 0 |
| Corporate loans | 249,584 | 248,855 | 0 |
| Car financing loans | 128,216 | 120,906 | (6) |
| Allowances for possible loan losses | (4,051) | (14,876) | 267 |
| Allowances for possible loan losses (FX-adjusted) | (4,475) | (14,876) | 232 |
| Deposits from customers | 880,839 | 1,136,666 | 29 |
| Deposits from customers (FX-adjusted) | 971,653 | 1,136,666 | 17 |
| Retail deposits | 853,172 | 973,276 | 14 |
| Corporate deposits | 118,481 | 163,390 | 38 |
| Liabilities to credit institutions | 94,909 | 29,524 | (69) |
| Total shareholders' equity | 132,667 | 166,124 | 25 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 822,118 | 753,584 | (8) |
| Stage 1 loans under IFRS 9/gross customer loans | 98.9% | 82.9% | (16.0) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.5% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 0 | 142,015 | |
| Stage 2 loans under IFRS 9/gross customer loans | 0.0% | 15.6% | |
| Own coverage of Stage 2 loans under IFRS 9 | 0.0% | 4.3% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 9,020 | 13,840 | 53 |
| Stage 3 loans under IFRS 9/gross customer loans | 1.1% | 1.5% | 0.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 8.7% | 36.3% | 27.6 |
| Provision for impairment on loan and placement losses/average gross loans | | 0.70% | |
| 90+ days past due loan volume (in HUF million) | 2,967 | 3,620 | 22 |
| 90+ days past due loans/gross customer loans | 0.4% | 0.4% | 0.0 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | | 0.8% | |
| ROE | | 6.3% | |
| Total income margin | | 3.18% | |
| Net interest margin | | 2.21% | |
| Cost/income ratio | | 51.0% | |
| Net loans to deposits (FX-adjusted) | 94% | 79% | (15) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

*OTP Group's financial statements include the Slovenian bank's balance sheet starting from end-2019, and its P&L from the first quarter of 2020.*

*The Slovenian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among adjustment items. The balance sheet items were not adjusted for the acquisition effects.*

OTP Group's **Slovenian** subsidiary generated HUF 9.7 billion adjusted after-tax profit in full year 2020. The full-year ROE was 6.3% in 2020, with 51% cost/income ratio, 2.21% net interest margin, and 70 bps credit risk cost ratio.

At the end of 2020, the ratio of Stage 3 loans remained steady at 1.5%. The own provision coverage ratio of Stage 3 loans stood at 36.3%. When the Slovenian bank was consolidated into the Group, Stage 3

loans were netted with the related provisions. In full year 2020, DPD90+ loan volumes (FX-adjusted, without sales/write-offs) grew by HUF 0.6 billion.

The FX adjusted volume of Stage 1+2 loans dropped by 1% y-o-y; within that, retail loans shrank by 9%, while corporate loan volumes expanded by 18%.

The FX-adjusted deposit stock grew by 17% y-o-y. The net loan/deposit ratio stood at 79%.

## OTP BANK ROMANIA

**Performance of OTP Bank Romania:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 6,309 | 1,558 | (75) |
| Income tax | (598) | 91 | (115) |
| Profit before income tax | 6,906 | 1,467 | (79) |
| Operating profit | 12,314 | 11,811 | (4) |
| Total income | 37,530 | 43,748 | 17 |
| Net interest income | 28,254 | 32,739 | 16 |
| Net fees and commissions | 3,180 | 3,813 | 20 |
| Other net non-interest income | 6,097 | 7,195 | 18 |
| Operating expenses | (25,216) | (31,937) | 27 |
| Total provisions | (5,408) | (10,344) | 91 |
| Provision for impairment on loan and placement losses | (3,018) | (7,840) | 160 |
| Other provision | (2,390) | (2,504) | 5 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 953,345 | 1,162,183 | 22 |
| Gross customer loans | 708,299 | 861,393 | 22 |
| Gross customer loans (FX-adjusted) | 773,358 | 861,393 | 11 |
| Retail loans | 522,937 | 587,724 | 12 |
| Corporate loans | 237,111 | 257,860 | 9 |
| Car financing loans | 13,311 | 15,809 | 19 |
| Allowances for possible loan losses | (39,327) | (48,174) | 22 |
| Allowances for possible loan losses (FX-adjusted) | (42,997) | (48,174) | 12 |
| Deposits from customers | 546,350 | 710,047 | 30 |
| Deposits from customers (FX-adjusted) | 590,707 | 710,047 | 20 |
| Retail deposits | 442,397 | 506,773 | 15 |
| Corporate deposits | 148,310 | 203,274 | 37 |
| Liabilities to credit institutions | 257,404 | 284,173 | 10 |
| Total shareholders' equity | 116,432 | 127,238 | 9 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 593,922 | 690,664 | 16 |
| Stage 1 loans under IFRS 9/gross customer loans | 83.9% | 80.2% | (3.7) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.3% | 1.0% | (0.3) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 61,556 | 114,615 | 86 |
| Stage 2 loans under IFRS 9/gross customer loans | 8.7% | 13.3% | 4.6 |
| Own coverage of Stage 2 loans under IFRS 9 | 5.7% | 9.0% | 3.3 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 52,821 | 56,113 | 6 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.5% | 6.5% | (1.0) |
| Own coverage of Stage 3 loans under IFRS 9 | 53.7% | 54.6% | 0.9 |
| Provision for impairment on loan and placement losses/average gross loans | 0.47% | 0.99% | 0.52 |
| 90+ days past due loan volume (in HUF million) | 35,416 | 38,713 | 9 |
| 90+ days past due loans/gross customer loans | 5.0% | 4.5% | (0.5) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 0.7% | 0.1% | (0.6) |
| ROE | 6.6% | 1.3% | (5.3) |
| Total income margin | 4.37% | 4.18% | (0.19) |
| Net interest margin | 3.29% | 3.13% | (0.16) |
| Cost/income ratio | 67.2% | 73.0% | 5.8 |
| Net loans to deposits (FX-adjusted) | 124% | 115% | (9) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RON (closing) | 69.1 | 75.0 | 9 |
| HUF/RON (average) | 68.6 | 72.6 | 6 |

**OTP Bank Romania** generated HUF 1.6 billion after-tax profit in 2020, 75% less than in the base period. In 2020, operating profit dropped by 4% in HUF (by 9% in local currency), as a result of a 17% y-o-y increase in total income, and a 27% surge in operating expenses. Net interest income grew by 16%, bolstered by a dynamic expansion in performing loan volumes, while the net interest margin dropped by 16 bps last year.

In 2020, operating expenses grew by 27% y-o-y (by 20% in local currency), largely because of the growth strategy launched in 2019: IT and digital developments boosted IT costs, while personnel expenses were 27% higher than a year earlier, owing to the general wage inflation, as well as the 15% rise in annual average headcount. As a result of the rising costs, the cost/income ratio increased by 5.8 pps, to 73.0% in 2020.

As a result of the growth strategy, both loan and deposit volumes grew dynamically in 2020. Due to the increased lending activity, performing (Stage 1+2) mortgage loan volumes increased by 15% y-o-y (FX-adjusted). Performing (Stage 1+2) loans to micro and small enterprises grew by 15%, and corporate exposures rose by 10% y-o-y. The FX-adjusted deposit volumes expanded by 20% y-o-y, supported by both the retail and corporate segments. The net loan/deposit ratio stood at 115% at the end of 2020 (-9 pps y-o-y). In 2020, OTP Bank Romania increased its market share in all segments. In the stock of housing loans, the Romanian operation increased its market share from 3.7% to 4.2% y-o-y.

Regarding loan quality, in 2020 the volume of DPD90+ loans grew by HUF 7 billion (FX-adjusted, without sales and write-offs), much of which was caused by corporate loans that slipped into delinquency in 2Q 2020.

The ratio of Stage 2 loans grew by 4.6 pps y-o-y, largely affected by the reclassification of Stage 1 loans (-3.7 pps y-o-y) owing to the pandemic. The own coverage of Stage 1+2 loans increased in y-o-y terms.

The ratio of Stage 3 loans remained on a downward trend in 2020. At the end of the year, Stage 3 loans made up 6.5% of gross loan volume (-0.9 pp y-o-y). Reasons for the decline included the sale/write-off of bad loans, as well as the rapid growth of loans. The own coverage of Stage 3 loans grew over the fourth quarter, bringing the ratio to 54.6% by the end of the year.

In 2020, total provisions grew by 91% y-o-y. Within that, loan loss provisions increased significantly (by HUF 4.8 billion) owing to the COVID-19 pandemic effects.

## OTP BANK UKRAINE

**Performance of OTP Bank Ukraine:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 35,223 | 26,104 | (26) |
| Income tax | (6,937) | (5,485) | (21) |
| Profit before income tax | 42,160 | 31,589 | (25) |
| Operating profit | 44,353 | 42,030 | (5) |
| Total income | 67,451 | 67,385 | 0 |
| Net interest income | 48,128 | 48,581 | 1 |
| Net fees and commissions | 14,877 | 13,540 | (9) |
| Other net non-interest income | 4,446 | 5,264 | 18 |
| Operating expenses | (23,098) | (25,355) | 10 |
| Total provisions | (2,194) | (10,441) | 376 |
| Provision for impairment on loan and placement losses | (1,433) | (6,286) | 339 |
| Other provision | (761) | (4,155) | 446 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 646,295 | 729,012 | 13 |
| Gross customer loans | 468,715 | 443,031 | (5) |
| Gross customer loans (FX-adjusted) | 431,920 | 443,031 | 3 |
| Retail loans | 136,749 | 118,709 | (13) |
| Corporate loans | 252,194 | 274,187 | 9 |
| Car financing loans | 42,977 | 50,136 | 17 |
| Allowances for possible loan losses | (69,785) | (46,200) | (34) |
| Allowances for possible loan losses (FX-adjusted) | (64,223) | (46,200) | (28) |
| Deposits from customers | 431,944 | 493,884 | 14 |
| Deposits from customers (FX-adjusted) | 394,459 | 493,884 | 25 |
| Retail deposits | 176,949 | 222,112 | 26 |
| Corporate deposits | 217,509 | 271,772 | 25 |
| Liabilities to credit institutions | 79,331 | 91,059 | 15 |
| Total shareholders' equity | 109,128 | 117,071 | 7 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 345,955 | 365,266 | 6 |
| Stage 1 loans under IFRS 9/gross customer loans | 73.8% | 82.4% | 8.6 |
| Own coverage of Stage 1 loans under IFRS 9 | 0.9% | 1.9% | 1.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 41,847 | 31,726 | (24) |
| Stage 2 loans under IFRS 9/gross customer loans | 8.9% | 7.2% | (1.7) |
| Own coverage of Stage 2 loans under IFRS 9 | 8.3% | 15.9% | 7.6 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 80,913 | 46,039 | (43) |
| Stage 3 loans under IFRS 9/gross customer loans | 17.3% | 10.4% | (6.9) |
| Own coverage of Stage 3 loans under IFRS 9 | 77.9% | 74.3% | (3.6) |
| Provision for impairment on loan and placement losses/average gross loans | 0.34% | 1.39% | 1.05 |
| 90+ days past due loan volume (in HUF million) | 51,913 | 28,401 | (45) |
| 90+ days past due loans/gross customer loans | 11.1% | 6.4% | (4.7) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 7.0% | 3.8% | (3.2) |
| ROE | 42.5% | 23.0% | (19.5) |
| Total income margin | 13.38% | 9.78% | (3.60) |
| Net interest margin | 9.55% | 7.05% | (2.50) |
| Cost/income ratio | 34.2% | 37.6% | 3.4 |
| Net loans to deposits (FX-adjusted) | 93% | 80% | (13) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/UAH (closing) | 12.4 | 10.5 | (15) |
| HUF/UAH (average) | 11.3 | 11.4 | 1 |

*OTP Bank Ukraine's financial data in HUF terms were affected by the HUF/UAH exchange rate moves: by the end of 2020, the UAH's closing rate against the HUF depreciated by 16% y-o-y. The full-year average rate firmed 1%. As a result, the balance sheet and P&L dynamics expressed in HUF terms differ from those in local currency.*

**OTP Bank Ukraine** generated HUF 26.1 billion after-tax profit in 2020. The 26% y-o-y contraction stems from stronger provisioning, and a 6% drop in operating profit, in UAH.

After the second quarter, which was an intra-year low in lending, disbursement dynamics have steadily improved. Corporate loan disbursement expanded by an impressive 38% y-o-y in 2020. By the end of the year, performing (Stage 1+2) loans grew by 11% y-o-y (FX-adjusted). Net loan/deposit ratio stood at 80% at the end of 2020.

Operating profit dropped by 6% y-o-y in local currency in full-year 2020. In 2020, total income shrank by 1% y-o-y in local currency, chiefly because net fees and commissions fell by 10%. Net interest income was stable y-o-y, even if net interest margin shrank 2.5 pp, nearing 7%. This is predominantly due to the significantly lower interest rate environment: the base rate fell by a total of 750 bps, to 6% in 2020.

In 2020, operating expenses grew by 9% in UAH, largely because of higher wage costs, and a 7% rise in administrative expenses.

In 2020, total risk cost amounted to -HUF 10.4 billion. In 2020, risk cost ratio was at 1.39% (+105 bps y-o-y).

In Ukraine, there was no compulsory debt repayment moratorium. As to loan quality, more than 90 days past due loan volumes increased in 2020 by HUF 1 billion (FX-adjusted, without sales/write-offs), compared to HUF 4 billion in 2019.

In 2020 the Stage 3 loans' share in the whole portfolio shrank by 6.9 pps y-o-y to 10.4%. By the end of 2020, the own provision coverage of Stage 3 loans dropped by 3.6 pps y-o-y, to 74.3%, as loans with high coverage were the sold/written off. The own provision coverage of Stage 2 loans grew to 15.9%, and that of Stage 1 loans has nearly doubled y-o-y, to 1.9%. This is resulting from the following: as precautionary move in the first half of the year corporate loans were reclassified from Stage 1 to Stage 2. Now, in 4Q, these were returned to Stage 1 category, but the previously created higher impairment for these loans was retained, as general provisions.

## OTP BANK RUSSIA

**Performance of OTP Bank Russia**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 28,127 | 16,317 | (42) |
| Income tax | (8,272) | (5,092) | (38) |
| Profit before income tax | 36,399 | 21,409 | (41) |
| Operating profit | 84,946 | 65,068 | (23) |
| Total income | 146,582 | 123,198 | (16) |
| Net interest income | 113,572 | 99,872 | (12) |
| Net fees and commissions | 31,012 | 22,503 | (27) |
| Other net non-interest income | 1,998 | 823 | (59) |
| Operating expenses | (61,636) | (58,130) | (6) |
| Total provisions | (48,547) | (43,659) | (10) |
| Provision for impairment on loan and placement losses | (46,123) | (41,160) | (11) |
| Other provision | (2,424) | (2,499) | 3 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 908,388 | 688,980 | (24) |
| Gross customer loans | 786,241 | 597,849 | (24) |
| Gross customer loans (FX-adjusted) | 661,721 | 597,849 | (10) |
| Retail loans | 573,592 | 505,902 | (12) |
| Corporate loans | 80,304 | 74,239 | (8) |
| Car financing loans | 7,825 | 17,708 | 126 |
| Allowances for possible loan losses | (152,741) | (127,598) | (16) |
| Allowances for possible loan losses (FX-adjusted) | (128,479) | (127,598) | (1) |
| Deposits from customers | 471,735 | 350,608 | (26) |
| Deposits from customers (FX-adjusted) | 403,021 | 350,608 | (13) |
| Retail deposits | 301,897 | 288,058 | (5) |
| Corporate deposits | 101,124 | 62,550 | (38) |
| Liabilities to credit institutions | 155,306 | 90,852 | (42) |
| Total shareholders' equity | 202,761 | 183,402 | (10) |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 589,553 | 447,094 | (24) |
| Stage 1 loans under IFRS 9/gross customer loans | 75.0% | 74.8% | (0.2) |
| Own coverage of Stage 1 loans under IFRS 9 | 5.3% | 4.6% | (0.7) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 94,413 | 67,394 | (29) |
| Stage 2 loans under IFRS 9/gross customer loans | 12.0% | 11.3% | (0.7) |
| Own coverage of Stage 2 loans under IFRS 9 | 27.4% | 43.1% | 15.7 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 102,274 | 83,361 | (18) |
| Stage 3 loans under IFRS 9/gross customer loans | 13.0% | 13.9% | 0.9 |
| Own coverage of Stage 3 loans under IFRS 9 | 93.4% | 93.4% | 0.0 |
| Provision for impairment on loan and placement losses/average gross loans | 6.61% | 6.36% | (0.25) |
| 90+ days past due loan volume (in HUF million) | 96,484 | 77,929 | (19) |
| 90+ days past due loans/gross customer loans | 12.3% | 13.0% | 0.7 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 3.4% | 2.1% | (1.3) |
| ROE | 15.7% | 8.9% | (6.8) |
| Total income margin | 17.53% | 16.03% | (1.50) |
| Net interest margin | 13.58% | 13.00% | (0.58) |
| Cost/income ratio | 42.0% | 47.2% | 5.2 |
| Net loans to deposits (FX-adjusted) | 132% | 134% | 2 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RUB (closing) | 4.7 | 4.0 | (15) |
| HUF/RUB (average) | 4.5 | 4.3 | (4) |

*OTP Bank Russia's financial figures in HUF terms were affected by the moves in the HUF/RUB pair: at the end of 2020, the RUB's exchange rate against the HUF weakened 16% y-o-y. The average exchange rate depreciated by 5% in 2020. Therefore, the balance sheet and P&L dynamics in HUF terms differ from those in local currency.*

**OTP Bank Russia** generated HUF 16.3 billion profit in 2020, which is 39% less than in the base period (in local currency). The y-o-y drop in after-tax profit is a result of a 20% fall in operating profit and a 6% decline in risk cost, in local currency.

Ending three quarters of decline in the first three quarters of 2020, the performing (Stage 1+2) loan volume grew by an FX-adjusted 9% q-o-q in 4Q, resulting in a 11% y-o-y decline for 2020 as a whole. Performing consumer loan volumes shrank by 14% y-o-y; while the mid- and large corporate segment fell by

6%. There was a steady growth in car financing throughout the year, resulting in a 126% y-o-y increase from a relatively low base, FX-adjusted.

Meanwhile, customer deposits declined by an FX-adjusted 13% y-o-y. The FX-adjusted net loan/deposit ratio rose by 2 pps y-o-y, to 134%.

In 2020, total income declined by 12% y-o-y in RUB terms, including an 8% drop in net interest income, and a 24% fall in net fees and commissions. Total income margin eroded by 1.5 pps y-o-y, while net interest margin came down 59 bps, to 13%.

Due to lower administrative expenses, operating expenses declined by 1% y-o-y in full year 2020 in RUB, thus the annual cost/income ratio rose by 5.1pps, to 47.2%.

In 2020, total risk cost dropped by 6% in RUB, and the credit risk cost ratio declined 0.25 pp y-o-y, to 6.36%.

The ratio of Stage 3 loans upped by 0.9 pp y-o-y, to 13.9%; while nearly HUF 38 billion non-performing loans were sold or written off in 2020 (FX-adjusted), which is 10% increase compared to full year 2019.

## CKB GROUP (MONTENEGRO)

**Performance of CKB Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 6,377 | 4,307 | (32) |
| Income tax | (679) | (302) | (56) |
| Profit before income tax | 7,056 | 4,609 | (35) |
| Operating profit | 5,692 | 8,353 | 47 |
| Total income | 16,120 | 22,095 | 37 |
| Net interest income | 11,464 | 17,188 | 50 |
| Net fees and commissions | 4,215 | 4,446 | 5 |
| Other net non-interest income | 441 | 461 | 5 |
| Operating expenses | (10,428) | (13,743) | 32 |
| Total provisions | 1,364 | (3,743) | (374) |
| Provision for impairment on loan and placement losses | 1,293 | (3,434) | (366) |
| Other provision | 71 | (309) | (535) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 439,836 | 477,676 | 9 |
| Gross customer loans | 319,836 | 362,067 | 13 |
| Gross customer loans (FX-adjusted) | 353,327 | 362,067 | 2 |
| Retail loans | 178,523 | 173,693 | (3) |
| Corporate loans | 174,707 | 188,299 | 8 |
| Car financing loans | 97 | 75 | (23) |
| Allowances for possible loan losses | (19,518) | (24,510) | 26 |
| Allowances for possible loan losses (FX-adjusted) | (21,562) | (24,510) | 14 |
| Deposits from customers | 318,216 | 324,671 | 2 |
| Deposits from customers (FX-adjusted) | 350,637 | 324,671 | (7) |
| Retail deposits | 228,438 | 213,067 | (7) |
| Corporate deposits | 122,199 | 111,604 | (9) |
| Liabilities to credit institutions | 36,733 | 58,967 | 61 |
| Total shareholders' equity | 66,188 | 76,556 | 16 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 283,959 | 294,548 | 4 |
| Stage 1 loans under IFRS 9/gross customer loans | 88.8% | 81.4% | (7.4) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.3% | 0.2 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 12,509 | 41,390 | 231 |
| Stage 2 loans under IFRS 9/gross customer loans | 3.9% | 11.4% | 7.5 |
| Own coverage of Stage 2 loans under IFRS 9 | 4.8% | 9.3% | 4.5 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 23,369 | 26,129 | 12 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.3% | 7.2% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 68.2% | 63.9% | (4.3) |
| Provision for impairment on loan and placement losses/average gross loans | (0.56%) | 0.99% | 1.55 |
| 90+ days past due loan volume (in HUF million) | 17,058 | 17,538 | 3 |
| 90+ days past due loans/gross customer loans | 5.3% | 4.8% | (0.5) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.9% | 0.9% | (1.0) |
| ROE | 11.9% | 6.0% | (5.9) |
| Total income margin | 4.86% | 4.70% | (0.16) |
| Net interest margin | 3.45% | 3.65% | 0.20 |
| Cost/income ratio | 64.7% | 62.2% | (2.5) |
| Net loans to deposits (FX-adjusted) | 95% | 104% | 9 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

*On 27 February 2019 Crnogorska komercijalna banka a.d. signed an agreement to purchase the 90.56% stake from Societe Generale banka Montenegro a.d., the Montenegrin subsidiary of the Societe Generale Group. The financial closure of the transaction was completed on 16 July 2019. On 11 December 2020, Podgoricka Banka AD Podgorica was merged into Crnogorska Komercijalna Banka AD.*

*The Montenegrin operation's P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are presented at consolidated level, among the adjustment items. The balance sheet items were not adjusted for these effects.*

In full year 2020, the Montenegrin **CKB Group** generated HUF 4.3 billion adjusted profit, which was 32% less than in the base period.

What affected the y-o-y comparability of P&L lines was that the financial closure of the acquisition was completed on 25 July 2019, therefore the acquired bank's contribution was consolidated from 3Q 2019. The operating profit surged by 47% (including the 50% jump in net interest income), and operating expenses grew by 32%. Furthermore, total provisions were released in the base period, while the pandemic necessitated creating provisions in 2020. In 2020, ROE (6.0%) and the cost/income ratio (62.2%) fell y-o-y, while net interest margin (3.65%) increased.

In full year 2020, DPD90+ loan volumes (FX-adjusted, without sales and write-offs) increased by HUF 1.5 billion. The DPD90+ ratio (4.8%) declined by 0.5 pp y-o-y; meanwhile HUF 2.8 billion non-performing loans were sold/written off in 2020. At the end of 2020, the ratio of Stage 3 loans stood at 7.2% (-0.1 pp y-o-y), their own provision coverage was at 63.9%.

Performing (Stage 1+2) loans expanded 3% y-o-y (FX-adjusted).

The FX-adjusted loan book contracted by 7% y-o-y. The net loan/deposit ratio stood at 104% at the end of year (+9 pps y-o-y).

## OTP BANK ALBANIA (ALBANIA)

**Performance of OTP Bank Albania:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 2,616 | 1,959 | (25) |
| Income tax | (459) | (489) | 7 |
| Profit before income tax | 3,075 | 2,448 | (20) |
| Operating profit | 3,702 | 5,904 | 59 |
| Total income | 7,953 | 11,597 | 46 |
| Net interest income | 6,697 | 9,824 | 47 |
| Net fees and commissions | 1,007 | 1,278 | 27 |
| Other net non-interest income | 248 | 495 | 100 |
| Operating expenses | (4,250) | (5,693) | 34 |
| Total provisions | (627) | (3,455) | 451 |
| Provision for impairment on loan and placement losses | (249) | (2,515) | 910 |
| Other provision | (379) | (940) | 148 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 247,997 | 286,606 | 16 |
| Gross customer loans | 147,777 | 180,815 | 22 |
| Gross customer loans (FX-adjusted) | 161,373 | 180,815 | 12 |
| Retail loans | 72,937 | 83,948 | 15 |
| Corporate loans | 86,138 | 94,275 | 9 |
| Car financing loans | 2,299 | 2,592 | 13 |
| Allowances for possible loan losses | (3,657) | (8,089) | 121 |
| Allowances for possible loan losses (FX-adjusted) | (4,001) | (8,089) | 102 |
| Deposits from customers | 179,755 | 214,808 | 20 |
| Deposits from customers (FX-adjusted) | 196,492 | 214,808 | 9 |
| Retail deposits | 167,088 | 179,853 | 8 |
| Corporate deposits | 29,404 | 34,956 | 19 |
| Liabilities to credit institutions | 36,901 | 37,151 | 1 |
| Total shareholders' equity | 25,605 | 28,781 | 12 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 138,579 | 143,701 | 4 |
| Stage 1 loans under IFRS 9/gross customer loans | 93.8% | 79.5% | (14.3) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.2% | 1.3% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 4,593 | 31,620 | 588 |
| Stage 2 loans under IFRS 9/gross customer loans | 3.1% | 17.5% | 14.4 |
| Own coverage of Stage 2 loans under IFRS 9 | 10.1% | 10.4% | 0.3 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 4,604 | 5,494 | 19 |
| Stage 3 loans under IFRS 9/gross customer loans | 3.1% | 3.0% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 33.1% | 54.2% | 21.1 |
| Provision for impairment on loan and placement losses/average gross loans | 0.23% | 1.55% | 1.32 |
| 90+ days past due loan volume (in HUF million) | 2,270 | 3,984 | 76 |
| 90+ days past due loans/gross customer loans | 1.5% | 2.2% | 0.7 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.4% | 0.7% | (0.7) |
| ROE | 14.1% | 7.3% | (6.8) |
| Total income margin | 4.27% | 4.32% | 0.05 |
| Net interest margin | 3.59% | 3.66% | 0.07 |
| Cost/income ratio | 53.4% | 49.1% | (4.3) |
| Net loans to deposits (FX-adjusted) | 80% | 80% | 0 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/ALL (closing) | 2.7 | 2.9 | 7 |
| HUF/ALL (average) | 2.6 | 2.8 | 8 |

*OTP Group's financial statements included the Albanian bank's P&L account since 2Q 2019.*

*The P&L statement of the Albanian operation was adjusted for the one-off items directly related to the acquisition; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

The y-o-y dynamics of balance sheet and P&L lines were predominantly determined by the acquisition. **OTP Bank Albania** generated HUF 2.0 billion after-tax profit in full year 2020, which was 25% less than in the base period, owing to higher risk costs; operating profit grew by 59% on yearly basis.

Full-year ROE (7.3%) declined, while cost/income ratio (49.1%) and net interest margin (3.66%) increased y-o-y.

At the end of 2020, the ratio of Stage 3 loans was 3.0%, reflecting a marginal y-o-y drop. The own provision coverage of Stage 3 loans improved to 54.2%. When the Albanian bank was consolidated, Stage 3 loans were netted with provisions. In full-year 2020, the volume of DPD90+ loans (FX-adjusted, without sales and write-offs) rose by HUF 1.5 billion.

The FX-adjusted volume of Stage 1+2 loans expanded by 12% y-o-y; within that, retail loans surged 15%, while corporate and car financing loans expanded by a combined 10%.

The FX-adjusted deposit ratio surged 9% y-o-y, mostly fuelled by the strong growth in large corporate deposits. The net loan/deposit ratio remained flat at 80% y-o-y.

## MOBIASBANCA (MOLDOVA)

**Performance of Mobiasbanca:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 1,936 | 3,973 | 105 |
| Income tax | (174) | (540) | 210 |
| Profit before income tax | 2,110 | 4,513 | 114 |
| Operating profit | 2,929 | 7,707 | 163 |
| Total income | 5,902 | 14,596 | 147 |
| Net interest income | 3,959 | 8,889 | 125 |
| Net fees and commissions | 891 | 2,137 | 140 |
| Other net non-interest income | 1,052 | 3,570 | 239 |
| Operating expenses | (2,974) | (6,889) | 132 |
| Total provisions | (819) | (3,193) | 290 |
| Provision for impairment on loan and placement losses | (737) | (2,695) | 266 |
| Other provision | (82) | (499) | 509 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 211,043 | 249,921 | 18 |
| Gross customer loans | 104,763 | 132,081 | 26 |
| Gross customer loans (FX-adjusted) | 108,490 | 132,081 | 22 |
| Retail loans | 58,167 | 71,552 | 23 |
| Corporate loans | 48,781 | 58,467 | 20 |
| Car financing loans | 1,542 | 2,062 | 34 |
| Allowances for possible loan losses | (1,790) | (4,578) | 156 |
| Allowances for possible loan losses (FX-adjusted) | (1,857) | (4,578) | 147 |
| Deposits from customers | 161,071 | 203,176 | 26 |
| Deposits from customers (FX-adjusted) | 167,509 | 203,176 | 21 |
| Retail deposits | 115,397 | 133,395 | 16 |
| Corporate deposits | 52,111 | 69,781 | 34 |
| Liabilities to credit institutions | 12,342 | 5,906 | (52) |
| Total shareholders' equity | 34,518 | 37,287 | 8 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 102,460 | 121,459 | 19 |
| Stage 1 loans under IFRS 9/gross customer loans | 97.8% | 92.0% | (5.8) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.0% | 1.1% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 880 | 6,670 | 658 |
| Stage 2 loans under IFRS 9/gross customer loans | 0.8% | 5.1% | 4.3 |
| Own coverage of Stage 2 loans under IFRS 9 | 23.6% | 19.5% | (4.1) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 1,424 | 3,952 | 178 |
| Stage 3 loans under IFRS 9/gross customer loans | 1.4% | 3.0% | 1.6 |
| Own coverage of Stage 3 loans under IFRS 9 | 39.7% | 48.0% | 8.3 |
| Provision for impairment on loan and placement losses/average gross loans | 1.58% | 2.23% | 0.65 |
| 90+ days past due loan volume (in HUF million) | 383 | 2,109 | 451 |
| 90+ days past due loans/gross customer loans | 0.4% | 1.6% | 1.2 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 2.1% | 1.7% | (0.4) |
| ROE | 12.6% | 10.7% | (1.9) |
| Total income margin | 6.31% | 6.24% | (0.07) |
| Net interest margin | 4.23% | 3.80% | (0.43) |
| Cost/income ratio | 50.4% | 47.2% | (3.2) |
| Net loans to deposits (FX-adjusted) | 64% | 63% | (1) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/MDL (closing) | 17.1 | 17.3 | 1 |
| HUF/MDL (average) | 16.6 | 17.8 | 7 |

*The Moldovan bank was consolidated in 3Q 2019.*

*The P&L statement of the Moldovan operation was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

The y-o-y dynamics of balance sheet and P&L lines were basically determined by the acquisition. In full-year 2020, **Mobiasbanca** contributed to OTP Group's performance with HUF 4.0 billion after-tax profit. Full-year ROE (10.7%) and net interest margin (3.80%) declined, while cost/income ratio (47.2%) increased y-o-y.

In 2020, total provisions have nearly quadrupled y-o-y. This was affected by the fact that as the financial closure was completed on 25 July 2019, the acquired bank's contribution was consolidated from 3Q 2019. Also, in contrast to the provision release in 3Q 2019, in 2020 as a whole significant amount pf provisions

were set aside in the wake of the pandemic. At the end of 3Q 2020, the ratio of Stage 3 loans was 3.0% (+1.6 pps y-o-y); their own provision coverage stood at 48.0%. When the Moldovan bank was consolidated, Stage 3 loans were netted with provisions. In full-year 2020, the volume of DPD90+ loans (FX-adjusted, without sales and write-offs) grew by HUF 1.7 billion.

At the end of 2020, the FX-adjusted volume of performing (Stage 1+2) loans grew by 20% y-o-y; within that, both retail and corporate loans surged 20%.

FX-adjusted deposit volumes grew by 21% y-o-y. The FX-adjusted 34% y-o-y growth in corporate deposits owes a lot to the Banks' new customers. The net loan/deposit ratio stood at 63%, below the Group's average.

At the end of December 2020, the market share of OTP Group's Moldovan operation by balance sheet total, was 13.8%. This ranks it the fourth largest bank in Moldova.

## OTP BANKA SLOVENSKO (SLOVAKIA)

**Performance of OTP Banka Slovensko:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 1,575 | (1,166) | (174) |
| Income tax | (240) | (304) | 27 |
| Profit before income tax | 1,815 | (862) | (147) |
| Operating profit | 1,625 | 1,677 | 3 |
| Total income | 14,714 | 12,419 | (16) |
| Net interest income | 10,505 | 8,523 | (19) |
| Net fees and commissions | 3,884 | 3,208 | (17) |
| Other net non-interest income | 325 | 688 | 112 |
| Operating expenses | (13,089) | (10,742) | (18) |
| Total provisions | 190 | (2,539) | |
| Provision for impairment on loan and placement losses | 604 | (2,731) | (552) |
| Other provision | (414) | 192 | (146) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 473,660 | | |
| Gross customer loans | 392,793 | | |
| Gross customer loans (FX-adjusted) | 433,900 | | |
| Retail loans | 371,538 | | |
| Corporate loans | 62,355 | | |
| Car financing loans | 7 | | |
| Allowances for possible loan losses | (24,338) | | |
| Allowances for possible loan losses (FX-adjusted) | (26,886) | | |
| Deposits from customers | 351,722 | | |
| Deposits from customers (FX-adjusted) | 387,890 | | |
| Retail deposits | 353,851 | | |
| Corporate deposits | 34,039 | | |
| Liabilities to credit institutions | 50,669 | | |
| Total shareholders' equity | 38,078 | | |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 336,650 | | |
| Stage 1 loans under IFRS 9/gross customer loans | 85.7% | | |
| Own coverage of Stage 1 loans under IFRS 9 | 0.7% | | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 29,307 | | |
| Stage 2 loans under IFRS 9/gross customer loans | 7.5% | | |
| Own coverage of Stage 2 loans under IFRS 9 | 11.7% | | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 26,836 | | |
| Stage 3 loans under IFRS 9/gross customer loans | 6.8% | | |
| Own coverage of Stage 3 loans under IFRS 9 | 68.8% | | |
| Provision for impairment on loan and placement losses/average gross loans | (0.15%) | 0.76% | 0.91 |
| 90+ days past due loan volume (in HUF million) | 21,890 | | |
| 90+ days past due loans/gross customer loans | 5.6% | | |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 0.3% | (0.3%) | (0.6) |
| ROE | 5.2% | (3.4%) | (8.6) |
| Total income margin | 3.20% | 2.98% | (0.22) |
| Net interest margin | 2.29% | 2.04% | (0.25) |
| Cost/income ratio | 89.0% | 86.5% | (2.5) |
| Net loans to deposits (FX-adjusted) | 105% | | |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

On 26 November 2020, the sale of **OTP Banka Slovensko a.s.** to KBC Group N.V. was concluded.

The Slovak bank was deconsolidated at the end of November, so its end of 2020 balance sheet does not appear in the Group's end of 2020 balance sheet. Between January and October 2020, the Slovak entity realised an adjusted loss of HUF 1.2 billion.

## STAFF LEVEL AND OTHER INFORMATION

| | 31/12/2019 | | | | 31/12/2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Branches | ATM | POS | Headcount (closing) | Branches | ATM | POS | Headcount (closing) |
| **OTP Core** | **361** | **1,936** | **77,962** | **10,083** | **362** | **1,920** | **125,800** | **10,189** |
| DSK Group (Bulgaria) | 440 | 1,140 | 12,915 | 6,186 | 334 | 1,094 | 14,329 | 5,619 |
| OBH (Croatia) | 136 | 480 | 10,856 | 2,251 | 124 | 488 | 11,037 | 2,228 |
| OTP Bank Serbia | 231 | 338 | 18,424 | 3,162 | 217 | 323 | 16,657 | 3,022 |
| SKB Banka (Slovenia) | 53 | 83 | 3,982 | 863 | 51 | 83 | 4,167 | 889 |
| OTP Bank Romania | 95 | 141 | 5,125 | 1,496 | 95 | 149 | 6,256 | 1,693 |
| OTP Bank Ukraine (w/o employed agents) | 88 | 166 | 331 | 2,399 | 86 | 161 | 402 | 2,313 |
| OTP Bank Russia (w/o employed agents) | 134 | 223 | 715 | 5,343 | 135 | 280 | 704 | 5,127 |
| CKB Group (Montenegro) | 48 | 128 | 6,908 | 681 | 34 | 115 | 6,421 | 514 |
| OTP Bank Albania | 37 | 76 | 0 | 424 | 38 | 80 | 0 | 447 |
| Mobiasbanca (Moldova) | 53 | 145 | 0 | 755 | 54 | 148 | 0 | 830 |
| OTP Banka Slovensko (Slovakia) | 58 | 157 | 159 | 671 | 0 | 0 | 0 | 0 |
| **Foreign subsidiaries, total** | **1,373** | **3,077** | **59,415** | **24,231** | **1,168** | **2,921** | **59,973** | **22,682** |
| Other Hungarian and foreign subsidiaries | | | | 590 | | | | 557 |
| **OTP Group (w/o employed agents)** | | | | **34,902** | | | | **33,427** |
| *OTP Bank Russia - employed agents* | | | | 5,083 | | | | 4,402 |
| *OTP Bank Ukraine - employed agents* | | | | 663 | | | | 618 |
| **OTP Group (aggregated)** | **1,734** | **5,013** | **137,377** | **40,650** | **1,530** | **4,841** | **185,773** | **38,448** |

Definition of headcount number: closing, active FTE (full-time employee). The employee is considered as full-time employee in case his/her employment conditions regarding working hours are in line with a full time employment defined in the Labour Code in the reporting entity's country. Part-time employees are taken into account proportional to the full time working hours being effective in the reporting entity's country.

Definition of branch numbers: data reported from 2020 are not comparable with previous quarters at OTP Core due to a methodological change. The introduction of the new methodology increased the number of branches by 9 units (ceteris paribus).

According to the NBH's definition, from 3Q 2020 the number of POS terminals includes all terminals where OTP is the acquirer, including terminals that are not exclusively authorized by OTP.

# STATEMENT ON CORPORATE GOVERNANCE PRACTICE

## Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

Beyond fulfilling the statutory requirements, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the websites of both the Stock Exchange (www.bet.hu) and the Bank (www.otpbank.hu).

## System of internal controls

OTP Bank Plc., as a provider of financial and investment services, operates a closely regulated and state-supervised system of internal controls.

OTP Bank Plc. has detailed risk management regulations applicable to all types of risks (liquidity, market, country, counterparty, credit, operational, compliance), which are in compliance with the legal regulations on prudent banking operations. Its risk management system extends to cover the identification of risks, the assessment and analysis of their impact, elaboration of the required action plans and the monitoring of their effectiveness and results. The business continuity framework is intended to provide for the continuity of services. Developed on the basis of international methodologies, the lifecycle model includes process evaluation, action plan development for critical processes, the regular review and testing of these, as well as related DRP activities.

To ensure effective auditing, the OTP Bank Plc.'s internal audit system is realised on several levels of control built on each other. The system of internal checks and balances includes a combination of process-integrated and management control, independent internal audit organisation and executive information system. The independent internal audit organisation as an element of internal lines of defence promotes the statutory and efficient management of assets and liabilities, the defence of property, the safe course of business, the efficient, economical and productive operation of internal control systems, the minimisation of risks, moreover – beside compliance organisation – it reveals and reports deviations from statutory regulations and internal rules, makes proposal to abolish deficiencies and follows up the execution of actions. The independent internal audit organisation annually and quarterly prepares group-level reports on control actions for the executive boards. Once a year, the internal audit organisation draws up, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions and, in line with the provisions of the Credit Institutions Act, reports, once a year, to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audits, and on the review of compliance with IT and other technical conditions needed for the audits.

In line with the regulations of the European Union, the applicable Hungarian laws and supervisory recommendations, OTP Bank Plc. established an independent organisational unit with the task of identifying and managing compliance risks.

## General meeting

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

In accordance with the provisions of the Government Decree 102/2020 (IV.10.), the resolutions on the published agenda items were made by the Company's Board of Directors acting in the competence of the General Meeting, which was originally announced to be on 17 April 2020, but cancelled on 26 March 2020 and then convened again to be held on 30 April 2020.

## Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority). When making the decisions, shares embodying multiple voting rights shall represent one share.

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share. The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General

Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

The membership of the Board of Directors ceases to exist by

a) expiry of the mandate,
b) resignation,
c) recall,
d) death,
e) the occurrence of grounds for disqualification as regulated by law.
f) termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;

- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition

of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

**Ownership structure of OTP Bank Plc.**

| Description of owner | Total equity | | | | | |
|---|---|---|---|---|---|---|
| | 1 January 2020 | | | 31 December 2020 | | |
| | Ownership share | Voting rights[1] | Quantity | Ownership share | Voting rights[1] | Quantity |
| Domestic institution/company | 18.84% | 18.86% | 52,750,611 | 20.93% | 21.26% | 58,605,628 |
| Foreign institution/company | 77.01% | 77.10% | 215,635,699 | 71.60% | 72.73% | 200,480,153 |
| Domestic individual | 2.98% | 2.98% | 8,344,202 | 4.79% | 4.87% | 13,424,090 |
| Foreign individual | 0.13% | 0.13% | 356,377 | 0.11% | 0.12% | 319,346 |
| Employees, senior officers | 0.80% | 0.80% | 2,240,465 | 0.85% | 0.87% | 2,393,390 |
| Treasury shares[2] | 0.12% | 0.00% | 323,520 | 1.55% | 0.00% | 4,334,140 |
| Government held owner | 0.08% | 0.08% | 219,372 | 0.08% | 0.08% | 219,800 |
| International Development Institutions | 0.04% | 0.04% | 122,218 | 0.04% | 0.04% | 108,981 |
| Other[3] | 0.00% | 0.00% | 7,546 | 0.04% | 0.04% | 114,482 |
| **TOTAL** | **100.00%** | **100.00%** | **280,000,010** | **100.00%** | **100.00%** | **280,000,010** |

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP (OTP Bank Employee Stock Ownership Plan Organization). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 December 2020 ESOP owned 5,097,255 OTP shares.
[3] Non-identified shareholders according to the shareholders' registry.

**Number of treasury shares held in the year under review (2020)**

| | 1 January | 31 March | 30 June | 30 September | 31 December |
|---|---|---|---|---|---|
| OTP Bank | 323,520 | 1,667,632 | 2,313,939 | 4,395,242 | 4,334,140 |
| Subsidiaries | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 323,520 | 1,667,632 | 2,313,939 | 4,395,242 | 4,334,140 |

**Shareholders with over/around 5% stake as at 31 December 2020**

| Name | Number of shares | Ownership[1] | Voting rights[1,2] |
|---|---|---|---|
| MOL (Hungarian Oil and Gas Company Plc.) | 24,000,000 | 8.57% | 8.71% |
| KAFIJAT Group | 19,835,748 | 7.08% | 7.20% |
| OPUS Securities S.A. | 14,496,476 | 5.18% | 5.26% |
| Groupama Group | 14,330,632 | 5.12% | 5.20% |

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

## Committees[8]

**Members of the Board of Directors**
Dr. Sándor Csányi – Chairman
Mr. Tamás Erdei – Deputy Chairman
Mr. Mihály Baumstark
Dr. Tibor Bíró
Dr. István Gresa
Mr. Antal Kovács
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös
Mr. László Wolf

**Members of the Supervisory Board**
Mr. Tibor Tolnay – Chairman
Dr. Gábor Horváth – Deputy Chairman
Mr. András Michnai
Ms. Klára Bella
Dr. Márton Gellért Vági
Mr. Olivier Péqueux

**Members of the Audit Committee**
Dr. Gábor Horváth – Chairman
Mr. Tibor Tolnay – Deputy Chairman
Dr. Márton Gellért Vági
Mr. Olivier Péqueux

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

### *Personal and organizational changes*

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2020, the Board of Directors acting in the competency of the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2020 until 30 April 2021.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Tibor Tolnay as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. József Gábor Horváth as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Olivier Péqueux as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. Márton Gellért Vági as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. András Michnai as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

[8] Personal changes can be found in the „Personal and organizational changes" chapter.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Tibor Tolnay as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. József Gábor Horváth as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Olivier Péqueux as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. Márton Gellért Vági as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 20 July 2020 the labour contract of Dr. Zsolt Barna, Deputy Chief Executive Officer had been terminated by mutual agreement. Along with the termination of the labour contract with OTP Bank Plc, Dr. Zsolt Barna resigned from his positions held in different member companies of OTP Group.

### *Operation of the executive boards*

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive management body in its managerial function, while the Supervisory Board is the management body in its supervisory function of the Company. It controls the supervision of the lawfulness of the Company's operation, its business practices and management, performs oversight tasks and accepts the provisions of the Bank Group's Remuneration Policy. The effective operation of Supervisory Board is supported by the Audit Committee, as a committee, which also monitors the internal audit, the risk management, the reporting systems and the activities of the auditor.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or other committees, such as the Management Committee, the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of further permanent committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 8, the Supervisory Board held 6 meetings, while the Audit Committee held 1 meeting in 2020. In addition, resolutions were passed by the Board of Directors on 155, by the Supervisory Board on 108 and by the Audit Committee on 39 occasions by written vote.

### *Policy of diversity*

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.
When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.
With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.
It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.
For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 12 April, 2019. The management of OTP Bank Plc. currently comprises 7 members and has no female member.

## *ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS*

### Environmental protection principles

OTP Group is committed to the protection of the environment, the combating of climate change and its impacts, and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its Environmental Regulation. The Regulation ensures legal compliance and the consideration and integration of environmental criteria into the Bank's business operations in order to minimise the environmental impacts of operating and maintaining the Bank's organisation. It also sets out the rules on implementing the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation and received no fines in 2020 either.

In CDP's Climate Change Questionnaire, OTP Group achieved a rating of B-, improving on its performance in the year before.

OTP Bank set up an ESG Steering Committee in 2020 (see the Non-financial statement section about the operations of the committee). The schemes overseen by it focus on the embedding of environmental and climate protection considerations into financial services and on the related disclosures; and as such, among other things, the Committee launched an ESG lending project and created the Green Programme Directorate.

### Environmental protection in relation to the provision of banking services

By 2023, OTP Bank aims to become the Central European bank best equipped to provide green financing. The Green Programme Directorate was created to achieve this goal; its main purpose is to take full advantage of the opportunities inherent in green financing, helping OTP Group build as large a green portfolio as possible and exploit the market potential of green financing certification.

Pursuant to our internal regulations, our banking group conducts its lending activities expecting – and always verifying – compliance with the applicable environmental regulations. At the time of the internal approval by the bank of the financing of a project and before first disbursement, the availability of the required permits and authorisations and compliance with the provisions thereof is always verified by one or more external consultants (legal and/or technical experts); the Bank subsequently ensures compliance by obtaining regular declarations from the customer and conducting its own monitoring. The credit agreements stipulate sanctions for any breaches of commitments made or requirements imposed. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the credit ratings of large corporate clients.

With regards to project financing, our group gives high priority to financing projects aimed at the utilisation of renewable energy sources. In 2020, our lending policy was to increase the support for lending to this sector even further; we also reviewed our lending guidelines applicable to the solar energy sector. In 2020, we lent HUF 9.2 billion to the renewables sector, financing a total of 30 MW in solar power capacities. In terms of project financing, we also give special attention and preference to office building projects with sustainability / environmental certification.

As far as sectors with environmental benefits are concerned, our corporate lending policy is expressly supportive of the financing of agriculture and solar power. Starting from 2020, we reclassified the paper, paper products and packaging material industry as a category requiring increased caution. The creation of a new agricultural limit framework based on quantity indicators has the potential for accelerating lending from 2021, especially in the case of smaller farms.

OTP Bank leads a consortium offering products of the Hungarian Development Bank (MFB), including both EU-refinanced and those of MFB's own origination, at the MFB Points set up in our branches. Environmental protection has been assigned priority in our available loan products since 2017. Households and businesses can access preferential terms under these products to implement energy projects (improving energy efficiency and increasing the reliance on renewables). In 2020, loans of a total of HUF 16.0 billion were disbursed; of this, 98.6% was retail lending, since the corporate credit facility had been depleted. In the period between 2017 and 2020, the total of disbursed loan contracts amounted to HUF 43.4 billion, representing 28.4% of all loans granted via MFB Points.

OTP Jelzálogbank was the first credit institution in Hungary to join the Energy Efficient Mortgages Initiative (EEMI) pilot. The aim of the programme is to allow participants to jointly develop best practices in green lending and to support the overhaul and energy modernisation of the housing stock.

In 2020, our subsidiaries in Croatia, Moldova, Albania and Slovakia offered preferential loans incentivising energy efficiency and the use of renewables.

The objective of the OTP Climate Change 130/30 Fund of OTP Fund Management is to provide an opportunity to invest in the shares of developed and developing market companies that may be the beneficiaries of the directives, the legislation and the changes in economic policy aimed at reducing climate change impacts. As of the end of 2020, the Fund had HUF 31.3 billion net asset value, nearly four times higher than in the year before.

Our efforts to reduce the direct environmental impact of OTP Group's operations are centred around improving its energy efficiency and reducing its paper usage. The environmental risks associated with our operations are analysed and managed within our operational risk management process. Potential risks are identified in the course of the annual process-based self-assessment, and the assessment of climate change risks is also included in the scenario analysis of risks with low probability but high impact.

### Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects; we also expand our use of LED lighting technology on an ongoing basis. As part of the renovation process, we are replacing air conditioning units, always ensuring that the new units use environmentally-friendly coolants. In 2020, OTP Bank identified the branches with the highest relative energy consumption; all immediate remedial actions were completed at these locations. The refurbishment of 16 branches at the parent bank also yielded energy savings. At the subsidiaries, branch refurbishment projects also included energy efficiency measures; our Montenegrin subsidiary continued installing LED lighting and motion detectors at its head office building.

We are intensifying our reliance on renewable energy based on cost-efficiency criteria. Whenever a branch of the parent bank is renovated, we always examine the possibility of installing solar panels and heat pumps. We installed solar panels at three branches in 2020. Our systems generated a total of 1,250 GJ energy from solar power. Our central archives facility has been using geothermal energy for several years (the facility used to be owned by Monicomp Zrt, which merged into the parent bank during the year). The solar panels of our subsidiaries in Croatia and in Serbia generated a total of 383 GJ of solar power.

Energy use across the Banking Group was greatly impacted by the pandemic. As regards ventilation and fresh air in our buildings, air recirculation was suspended and ventilation was intensified instead; this increased our energy usage. Although the high rate of staff working from home reduced our electricity consumption, heating and cooling consumption was only marginally lower because our employees continued to work on site at all our organisations, albeit in smaller numbers.

The number of business trips and the size of the vehicle fleet are determined by the needs of the business. Our Group's vehicle policy sets carbon limits; also, there are environmentally-friendly vehicles among the cars available to choose from in all the vehicle categories. Our Montenegrin subsidiary installed an electric car charging station in front of its head office building during the year. Group-level total mileage decreased, mainly because of the Covid-19 pandemic. The total distance covered by all OTP Bank vehicles fell by 5% even though the fleets of two subsidiaries with high vehicle use rates (Monicomp, OTP Faktoring) were transferred to the parent bank.

Video conferencing helps cut down on the amount of business travel and is a solution that we are using ever more extensively year after year. The number of video conferencing rooms rose again in 2020, and the rooms were increasingly busy. Our existing bicycle storage facilities continued to be available to both customers and employees in 2020. In addition, 48 new storage spaces were created at OTP Bank's head office buildings; our Serbian and Montenegrin subsidiaries provided new storage at their head offices; our Bulgarian subsidiary provided storage at three locations for employees and customers alike; and the Ukrainian subsidiary installed storage in three locations.

Energy consumption figures are presented in respect of OTP Bank. The bank's overall energy consumption decreased by 3% compared to the previous year. However, due to our workforce expansion, this represents an 8% reduction in per-capita energy consumption.

| Volume of energy consumption, OTP Bank | 2020 | 2019 |
|---|---|---|
| Total energy consumption (GJ) | 242,390 | 250,610 |
| Per-capita energy consumption (GJ) | 25,76 | 28.14 |

Energy consumption data are derived from readings; the measured consumption volumes are converted to energy using local average calorific values. (Excluding Monicomp Zrt Consumption data.)
The projection basis for the per-capital figure is the average statistical headcount in 2019 and the average full-time employee count (FTE) in 2020.
2019 figures were slightly revised.

### Efforts to reduce paper use

OTP Group has been making a consistent effort to reduce paper use and printing. OTP Bank reduced its office paper usage by approximately 30%; the pandemic and increased rates of working from home played a significant role in this development. Nevertheless, our percentage of recycled paper relative to total office paper usage increased to 20% and we plan to increase that figure even further in the future. Since 2020, OTP Bank has been using FSC-certified paper for its account statements and marketing publications, and we use only ECO Label personal hygiene products. Due to the merger of Monicomp the paper usage at OTP Bank increased significantly. Our Serbian subsidiary also uses FSC-certified paper, whereas our Slovenian subsidiary uses paper with PEFC certification. Further factors leading to lower paper usage included the introduction of lower-weight office paper at our Bulgarian subsidiary, and the transitioning to electronic signatures at our Moldovan subsidiary.

| Paper usage quantities, OTP Bank | 2020 | 2019 |
|---|---|---|
| Total amount of paper used (t) (office, packaging, indirect) | 1,137 | 764 |
| Per capita paper use (kg)[1] | 121 | 86 |

[1] For 2019 the average statistical headcount was used in the numerator, whereas for 2020 it was the average full-time employee (FTE) count.

### Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest time reasonably possible. We explicitly aim to use furniture until the end of its lifecycle, reusing it multiple times and ensuring the compatibility of replacements. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organisations in need.

In order to cut the use of plastics in its archiving practices, our parent bank replaced ethylene bags and plastic wallets with paper products and introduced filtered water fountains. In 2020, we expanded the use of stamps made of recycled plastic. A number of our subsidiaries drew up schemes to reduce the use of plastics; implementation is expected in 2021.

Our subsidiaries in Serbia, Montenegro and Moldova use toner refills to reduce toner and ink cartridge waste.

Waste collection remained unchanged in most respects in 2020. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the relevant laws and regulations. The selective collection of non-confidential paper waste, PET bottles and – in a number of locations – glass is available in the head office buildings of OTP Bank. Our Ukrainian subsidiary operates selective paper collection at its head office building. Our Serbian subsidiary collects paper waste selectively in its branches and head office buildings. Our Albanian subsidiary collects paper waste selectively. Our Romanian subsidiary collects all paper, metal, glass and plastic selectively. Our Slovenian subsidiary also collects communal waste selectively (including biodegradable food waste). Our Croatian subsidiary has collected paper and plastic waste selectively for years, whereas the Slovakian subsidiary does so at the locations where this is facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna and expanded the selective collection of paper waste during the year. Our Montenegrin subsidiary introduced selective paper waste collection at its head office and its archives facility.

### Attitude shaping

Most members of our Banking Group have a tradition of raising awareness and taking joint action to protect environmental and natural resources. The programmes implemented with the help of our employees are increasingly wide-ranging, covering almost all aspects of nature conservation and environmental protection:

- In 2020, OTP Bank continued to support the Hungarian Hikers' Association's efforts to popularise hiking.
- DSK Bank introduced its "Green Week" campaign. Water was the central theme of the first campaign week, when interesting information and water conservation advice was shared, and our employees submitted more than 30 recommendations on how the Bank could help reduce water consumption. A photo competition was announced and over 200 submissions were received. The subject of the second campaign week was waste; this involved, among other things, our continued participation in the nationwide PET bottle cap collection scheme (the caps are used for producing wheelchairs).
- Our Croatian subsidiary sponsored the Adriatic Sea clean-up programme of the scuba diving club in Split.

- Our Serbian subsidiary highlighted the importance of the responsible use of resources in the context of the pandemic. Our employees also planted trees.
- At our Russian subsidiary, environmental awareness messages were displayed on computer screens and in the offices.
- The employees of our Ukrainian subsidiary planted trees at several locations in 2020.
- Volunteers from our Romanian subsidiary participated in the “Let’s Do It, Romania!” cleanup day.
- Our Slovenian subsidiary keeps bees outside its head office building as part of the Nature in the City scheme, contributing to the preservation of a Slovenian species of bee.
- Our Montenegrin subsidiary used posters and newsletters as regular environmental awareness reminders for its employees. In 2020, the bank once again participated in nationwide afforestation and environmental protection campaigns.

## NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The social, environmental and wider economic performance and impacts of OTP Group are also reported in its dedicated Sustainability Report. The Sustainability Report for 2020 is a group-level report that meets the GRI (Global Reporting Initiative) Standard, and is certified by an independent third party. It is available as a digital version on OTP Bank's website. The information in this chapter is provided in order to comply with the Accounting Act, while also aiming to keep the duplication of information to a minimum. Information concerning environmental protection and climate change is provided mainly in the chapter on Environmental Policy and Environmental Protection Measures.

OTP Bank set up an ESG Steering Committee in 2020. The Committee is the governing body of ESG programmes and serves as a decision-making forum. It determines the objectives for these programmes, prioritises projects and allocates resources. The implementation of ESG programmes is supported by the Operational Committee, the Programme Management Team, the ESG team of experts and the Group Management Body.

OTP Bank is committed to ethical business conduct in all respects; our principles are set out in our Code of Ethics, which is binding for all our employees and agents. Our financial services and our operations have significant social and environmental impacts; our objective is to manage risks responsibly while taking advantage of opportunities and delivering positive outcomes.

### Providing responsible financial services and managing credit risk

Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group remains a high priority. Our Compliance Policy formulates our principles and guidelines for the fair treatment of customers, as well as our compliance with consumer protection requirements. We follow the principles of ethical product design when designing our products, and our New Product Policy requires – among other things – that we investigate any potential risks affecting consumers.

We fulfil our role as financial intermediary in a way that guarantees the security of our customers' savings throughout the entire process. Our rules ensure that we comply with the responsible lending standards concerning the prevention of excessive debt, the provision of fair, clear, comprehensive and easily visible information, and the recommendation of appropriate products.

We invest and lend the money deposited with us, ensuring that it will not serve illegal purposes, or those contrary to the values of society. OTP Bank will not finance

- customers whose financing is forbidden in international accords, EU acts or national laws;
- those whose activity is likely to violate public morals or social value systems, or is connected to crime;
- those who are connected, directly or indirectly, to criminal activities or to the deliberate violation or evasion of legal regulations;
- transactions classified as prohibited business sectors (e.g. the illegal arms trade, prohibited gambling, drug trade, or any other illegal activity);
- transactions that fail to meet environmental standards.

We ensure adherence to our principles, and maintain this balance through:

- our strict Risk Management Policy,
- our annually revised Lending Policy,
- our continuously developed credit approval system.

Our Lending Policy clearly defines the industries, business lines and activities where we pursue active business operations, as well as the areas where we do not wish to assume risks.

We offer our customers banking options to suit their individual needs, and provide our services with the highest standard of quality, while continuing to improve and innovate. While recommending and encouraging the use of online channels, we also kept most of our branches open during the pandemic, albeit with shorter hours. We took numerous protective measures to improve safety.

Our objective is to provide equal access for persons living with disability, through services adapted to their special needs, in line with the Accessibility Strategy of OTP Bank. Accessibility is integrated into our website, which supports one-handed use and provides accessibility options including text-to-speech software and video content transcripts. Physical accessibility was provided in all our branches but one in 2020 as well. Tactile guide strips are available in 41% of our branches. Our customers can request special-needs services at the queue management machine, with physical push buttons and tactile strips also assisting them in using

the device. KONTAKT Interpreter Services are available at 166 branches; this is a service allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available (in 109 branches), while 25 of our high-traffic branches have employees who can serve customers using sign language. We have made text-to-speech software available on 765 of our ATMs.

OTP Bank's stated objective is to serve its customers without fault. In order to improve the satisfaction of our customers, we are also improving our complaint management practices on an ongoing basis. Our Complaint Management Policy, Complaint Management Regulation and a Glossary are available to view in our branches as well as on our website.

Complaints in 2020 tended to concern the major changes introduced last year, such as the statement of charges, sent to customers early in the year as per the Payment Accounts Directive; instant payments, once they had been introduced; and numerous customer queries and complaints regarding the payment holiday granted in the coronavirus pandemic. The number of complaints regarding card purchases was also high; some of those complaints were attributable to online fraud. Where errors or gaps were identified by the investigation into complaints, the responsible departments carried out the necessary improvements and developments.

| Customer complaint data, OTP Bank* | 2020 | 2019 |
|---|---|---|
| Number of warranted complaints | 202,040 | 125,242 |
| Ratio of warranted complaints | 67% | 66% |
| Compensation paid (HUF million) | 419 | 144 |

** Also includes OTP Lakástakarék and OTP Jelzálogbank data.*

We use TRI*M methodology to measure the satisfaction of our retail customers. OTP Bank's client retention power stood at 66 points in 2020, falling short of the level in the preceding six-month period. In order to understand this result, consideration must be given to the change in methodology (personal inquiry being replaced by sampling online and by telephone) and the impact of the pandemic, which also reduced the average value of the market as a whole. The average satisfaction score of banks in Central Europe was 71.

### Security and data protection

Security is a top concern for us. The principles and main guidelines concerning security at the bank are set forth in the Security Policy, which is approved by the Board of Directors. The Policy covers all aspects of security, including IT and cyber security, which have become increasingly important. The processing and protection of personal data is covered by the Compliance Policy, which is also approved by the Board of Directors. Both Policies prescribe the regular evaluation of risks, and the need for maintaining and enhancing awareness. The Deputy CEO responsible for the IT Division and the data protection officer (reporting directly to the top management of the data controller or the data processor and not accepting instructions from anyone regarding the discharging of duties) are responsible for data processing at the bank and the protection of customers' personal data.

Our 24/7 Security Operations Center (SOC) was put into operation in 2020 and provides continuous monitoring, detection and thus prompt alerts of IT security events. In 2020, we received hundreds of reports of phishing. Whenever an actual phishing event occurred, we had the phishing website blocked; where the incident was of greater magnitude, we informed our customers and employees as well. The Bank issued regular press releases on this subject. We took action several times against fraudulent websites and malware (a virus or link sent by email).

We prioritise raising awareness among our employees and customers. A full review and revision of the security awareness training materials for employees was completed in 2020. As a result of the pandemic, the heightened security of working from home was a priority during the year. We improved our employees' security awareness through in-house practices. Our awareness-raising programmes linked to the European Cybersecurity Month focused on the preparations for tackling phishing attempts. In addition, we compiled training materials for customers on how to avoid phishing and how to use smartphones safely.

No bank card information was leaked from OTP Bank's systems; data were only revealed by our customers in response to phishing. The continued low rate of bank card fraud demonstrates the effective operation of our systems. OTP Bank's percentage of fraud cases involving Bank-issued cards relative to turnover was significantly lower (0.0058%) than the European average published by MasterCard (0.0378%). We prevented losses from fraud in the amount of HUF 2.1 billion.

Suspected money laundering was reported 262 times during the year. Expected loss from financial fraud amounted to HUF 680 million, while losses prevented to HUF 138 billion; expected loss relating to branches, ATM equipment and facilities and equipment to HUF 6 million, with prevented losses amounting to HUF 65 million.

### Fight against corruption and against the practice of bribery

The Code of Ethics and the Anti-Corruption Policy of OTP Bank contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf, https://www.otpbank.hu/static/portal/sw/file/OTP_Korrupcioellenes_Politika_202007.pdf). As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 23 reports were received in 2020, 5 of them was reclassified as complaints and 3 case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Any requests from third parties affecting human rights are treated by the Bank as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Management Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

### Citizenship

As one of the most generous charitable donors in Hungary, OTP Bank gave a total of HUF 3.7 billion in charitable donations. Playing an active role in managing the hardship generated by the coronavirus pandemic was a priority for us in 2020. Our Bank gave HUF 1.7 billion in donations to healthcare institutions, financing the acquisition of medical devices at several hospitals, including some operating in disadvantaged areas of the country; we also handed out 20 ventilators as donations in kind.

We aim to provide genuine and effective help by supporting programmes and causes that serve the interests of society. We cooperate with a number of local non-governmental organisations, concentrating our donated funds and monitoring their usage and the results achieved. Besides our support to the healthcare sector, our efforts were focused on the following areas:

- developing financial literacy, attitude-shaping;
- sponsoring culture and the arts: creating and preserving values;
- equal opportunities: helping the disadvantaged and those in need;
- sports.

During the pandemic, only a limited set of our voluntary programmes remained possible; in 2020 1,400 employees spent 5,500 hours doing voluntary work.

The Humanitas Social Foundation supports vulnerable communities and individuals with a focus on healthcare and education; donation recipients are selected through an application process. Its most important activity in 2020 involved priority support to hospitals.

The OTP Fáy András Foundation provides financial and economic education services, a key element of which is operating the OK Educational and Innovation Centre. The activities of the Foundation in 2020 were determined mostly by the coronavirus pandemic and the refurbishment of the educational centre in Budapest, which had been started in 2019. 2,212 persons attended classroom training, instead of which emphasis shifted to digital education programmes. The Fáy digital educational programme was created for students in Years 5 to 12 and comprises live presentations, online videos, e-learning materials and a games app. The learning materials produced during the year were used by 2,000 students by the end of the year, while the games app (Platypus: A Finlit Story) had over 30 thousand downloads. The app is available without any limitations and free of charge even outside the school context. Four age-specific outdoor training

programmes, each two hours long, were developed to meet the needs of schools. During the year, the Centre also ran a regional educational programme as well as summer camps, and also developed adult educational materials. In order to shape social attitudes and raise awareness, three short films were broadcast 800 times on national commercial channels; these films touched on the subjects of self-provision, digital banking solutions and consumer empowerment. The refurbishment of the OK Educational and Innovation Centre was completed, ensuring that the Foundation can deliver its educational programmes with even greater capacities and relying on an even more modern infrastructure.

Our aim with the short film Keep it in the Family! was also to improve financial literacy and shape attitudes; in this film, two sets of parents and children spoke about money and their relationship with it. The video is available online and has been viewed more than 400,000 times. We also joined the "Life without Leftovers!" campaign of the Hungarian Food Bank Association, which encourages reducing food waste.

### Responsible employment

Our employees play a key role in OTP Bank's success. The pandemic has forced us to adopt unprecedented measures to protect the safety of our employees. We created the conditions for work from home for thousands of our employees within a short timeframe, and introduced emergency measures relating to working on site in our offices. We also helped our employees recharge their emotional, mental and physical batteries in these difficult working conditions.

| OTP Bank's employees (31 December) | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Total | Men | Women | Total | Men | Women |
| Employees, total (individuals) | 9,826 | 3,402 | 6,424 | 9,318 | 2,975 | 6,343 |
| Distribution by gender | 100% | 34.6% | 65.4% | 100% | 31.9% | 68.1% |
| Turnover rate[1] | 10.5% | 9.3% | 11.2% | 13.0% | 13.2% | 12.8% |

*[1] Compared to the end-of-year headcount; includes termination of employment both by employee and by employer, as well as retirement.*

The central objective of our human resource strategy is to intensify employee experience and commitment. Development projects furthering the achievement of the goals set in accordance with predefined priorities were implemented in 2020, supporting, among others, a consistent and relevant management development process, talent and succession planning with talent identification and selection and the measurement of competencies along consistent principles, and also the development of performance management, with clear targets and continuous feedback. The growth and development of our employees is a priority for us. All our employees attend professional training courses and competency development, based on their performance assessments.

Ethical conduct and compliance with the law remain core principles in our human resource management as well. OTP Bank analyses and manages the risks pertaining to employment within its operational risk management process. The interests of our employees are represented by their trade union, with a Collective Agreement setting out the rights and obligations of every employee.

In our Code of Ethics, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executive officers and employees, including the prohibition of discrimination and harassment. We consistently apply the principle of "equal pay for equal work", including providing equal pay to men and women for the same position and performance. Within the objective limitations of specific job descriptions, we allow for flexible working hours and part-time employment options. We encourage healthy lifestyle choices, offering a complex health insurance package, and subsidising recreation and sports activities.

We regularly measure employee satisfaction. In 2020, we surveyed head office employees to find out their experience of the pandemic. The employees judged the Bank's performance as very good, both in terms of how efficiently we were dealing with the situation (96%) and how we communicated (90%). As a pilot, we measured engagement within a certain subset of our staff. The 86% engagement score is high, even in comparison with the international benchmarks.

### Short description of the business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its branch network and its steadily developing digital channels. The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market

instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

### Non-financial performance indicators

- Internal audit: 181 closed investigations, 1,127 proposals, 1,126 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 72 yes, 0 no;
- Compliance: 19 closed consumer protection related investigations, 4,838 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 680 million, prevented damages: HUF 813 million; reported criminal charges on suspicion of money laundering: 471; the ratio of bank card abuses 0.0058% which is better than the European average (European average 0.0378%, world average 0.0679%);
- Ethics issues: 23 ethics reports, establishing ethics offense in 3 cases.

## *LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK*

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Issue of Comfort letters;
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400);
- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000);
- Engagements carried out according to standards on review engagements (ISRE 2400, 2410).

# SUPPLEMENTARY DATA

## FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

*General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.*

(1) Aggregated adjusted after tax profit of OTP Core and foreign banks.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd, OTP Building Society Ltd, OTP Factoring Ltd, OTP Financial Point Ltd., and companies providing intragroup financing; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017 (from 1Q 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from 1Q 2019; OTP eBIZ Ltd. was included from 1Q 2020. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) The result and balance sheet of OTP Factoring Bulgaria EAD is included. From 1Q 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation. From 1Q 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included.

(4) From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing d.d. and SB Leasing d.o.o. was included. In February 2020 the company name of OTP banka Hrvatska dioničko društvo was changed to OTP banka dioničko društvo.

(5) The financial performance of OTP Factoring Serbia d.o.o is included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Lizing d.o.o and OTP Services d.o.o. was included. The balance sheet of the newly acquired OTP banka Srbija was included in 3Q 2019, its P&L from 4Q 2019.

(6) The statement of recognised income and balance sheet of OTP Faktoring SRL was included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing Romania IFN S.A. was included.

(7) Figures are based on the aggregated financial statements of OTP Bank JSC, LLC OTP Leasing Ukraine, and OTP Factoring Ukraine LLC.

(8) The statement of recognised income and balance sheet of LLC MFO "OTP Finance" is included in the Russian performance.

(9) From 3Q 2019 the statement of recognised income and balance sheet of Podgoricka banka was included.

(10) P&L data and related indicators are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund. Including the financial performance of OTP Faktoring Slovensko s.r.o. The sale of the Slovakian subsidiary was concluded at the end of November 2020.

(11) Until the end of 2019 the after tax profit of Merkantil Bank without dividends, net cash transfer and other adjustment items, since 1Q 2020 the sub-consolidated after tax profit of Merkantil Group (Merkantil Bank Ltd., Merkantil Bérlet Ltd., OTP Real Estate Leasing Ltd., NIMO 2002 Ltd., SPLC-P Ltd., SPLC Ltd.) was presented.

(12) LLC AMC OTP Capital, OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(13) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia), OTP Solution Fund (Ukraine).

(14) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes issued by OTP Bank. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

(15) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(16) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries.

## CALCULATION OF THE ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS, AS WELL AS THE ADJUSTED BALANCE SHEET LINES PRESENTED IN THE BUSINESS REPORT, AND THE METHODOLOGY FOR CALCULATING THE FX-ADJUSTED VOLUME CHANGES

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Supplementary Data section.

Adjustments affecting the income statement:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Recognised Income. The following adjustment items emerged in the period under review and the previous year: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, and the one-off impact of regulatory changes related to FX consumer contracts in Serbia.

  Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. Within banking taxes, the special tax booked by the Romanian subsidiary was also included in 4Q 2019.

- Until 4Q 2017 other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of *Provision for impairment on loan and placement losses* line in the income statement. Starting from 1Q 2018 this income from the release of pre-acquisition provisions was presented amongst the *Provision for impairment on loan and placement losses* line both in the accounting and adjusted P&L structure.

- In 4Q 2019 the following items have been moved from the Other operating expenses line among the Net interest income after loss allowance, impairment and provisions line: *Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost*, *Provision for commitments and guarantees given*, *Release of impairment of assets subject to operating lease and of investment properties*. In the adjusted P&L structure these items are presented amongst the *Other provisions (adj.)* line (through the *Structural correction between Provision for loan losses and Other provisions* adjustment line).

- Other non-interest income is shown together with Gains and losses on real estate transactions, Net insurance result, Gains and losses on derivative instruments, and Gains and losses on non-trading securities mandatorily at fair value through profit or loss lines in 2019, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.

- OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. In the addition to this, OTP Bank has changed the way how private equity funds managed by PortfoLion are recorded. As a result of this, as opposed to the previous method of recording the funds at book value (initial book value less impairments), starting from 3Q 2019 the funds are evaluated based on their net asset value. The change in the carrying value was reclassified to the Net other non-interest result (adj.) without one-offs line in the adjusted P&L structure. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.

- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.

- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers (except for movie subsidies and cash transfers to public benefit organisations, whereas from 2019 certain part of cash transfers to public benefit organizations was presented amongst net fees and commissions), Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.

- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.

- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the financial transaction tax and/or Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line.
- Due to the introduction of IFRS16 from 2019, certain items previously presented on the Other non-interest expenses line (rental fees) were moved to the interest expenses and depreciation lines in the accounting income statement. These items were shifted back to the Other non-interest expenses line in the adjusted P&L structure.
- Staring from 2020 the currency exchange result was shifted in the accounting P&L structure from the FX result to the net fees and commissions line, retroactively for the 2019 base period as well. In the adjusted P&L structure this
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated).
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown, as well as the FX-adjusted stock of allowances for loan losses are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier. Regarding the FX-adjusted volume change of DPD90+ loans (adjusted for sales and write-offs), instead of the previously applied 3Q 2009 FX rates, from 4Q 2020 onwards the actual end of period FX rates are used for calculating the FX-adjusted figures.

Adjustments affecting the balance sheet:

- On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 and 9M 2020 balance sheet (there was no change in the 2018 closing balance sheet structure, whereas by the end of 4Q 2020 the Slovakian entity was deconsolidated). As for the consolidated accounting income statement, the Slovakian contribution for 2018, 2019 and 2020 (in 2020 the January-October contribution was consolidated) was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in the Stock Exchange Report incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management.
- At the end of 2020, OTP Osiguranje d.d. was presented as asset classified as held for sale in the accounting financial statements. Accordingly, its assets and liabilities were shown on a separate line in the consolidated balance sheet. Regarding the 2020 accounting statement of recognized income, the entity's annual result was presented on the *Gains from held for trading operations* line, therefore the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from this entity. As opposed to this, the adjusted financial statements presented in the Stock Exchange Report incorporated the company's balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management.
- Finance lease receivables – earlier presented within customer loans – are shown on a separate line in the accounting balance sheet from 2019. As for the adjusted balance sheet, net customer loans continue to include the stock of finance lease receivables.
- In the adjusted balance sheets presented in the analytical section of the report, the total amount of accrued interest receivables related to Stage 3 loans under IFRS 9 were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

## ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

| | 2020 HUF million | 2019 HUF million |
|---|---|---|
| **Net interest income** | **782,671** | **699,041** |
| (-) Revaluation result of FX provisions | (57) | 30 |
| (+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | 337 | 76 |
| (-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB | 5,951 | 3,135 |
| (-) Effect of acquisitions | (600) | 1,583 |
| (-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals | 0 | 0 |
| (-) Reclassification due to the introduction of IFRS16 | (1,623) | (1,652) |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | (1,535) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 8,755 | 10,733 |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 15 | |
| (-) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | | 1,992 |
| **Net interest income (adj.)** | **788,079** | **706,298** |
| | | |
| **Net fees and commissions** | **397,633** | **374,180** |
| (+) Financial Transaction Tax | (61,588) | (61,920) |
| (-) Effect of acquisitions | (145) | (42) |
| (+) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line | 0 | 0 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | (30) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3,210 | 3,906 |
| (-) Structural shift of income from currency exchange from net fees to the FX result | 46,290 | 33,736 |
| **Net fees and commissions (adj.)** | **293,112** | **282,504** |
| | | |
| **Foreign exchange result** | **7,864** | **5,734** |
| (-) Revaluation result of FX positions hedging the revaluation of FX provisions | 11,195 | (5,166) |
| (-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | (1,964) | (477) |
| (-) Effect of acquisitions | 0 | 1 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3 | 66 |
| (+) Structural shift of income from currency exchange from net fees to the FX result | 46,290 | 33,736 |
| **Foreign exchange result (adj.)** | **44,927** | **45,177** |
| | | |
| **Gain/loss on securities, net** | **16,106** | **11,611** |
| (-) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019 until 4Q 2019 | - | 1,914 |
| (-) Effect of acquisitions | (98) | |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 349 | |
| **Gain/loss on securities, net (adj.) with one-offs** | **16,553** | **9,697** |
| (-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core) | 2,360 | (2,675) |
| **Gain/loss on securities, net (adj.) without one-offs** | **14,193** | **12,373** |
| | | |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale** | **5,590** | **(4,668)** |
| (-) Effect of acquisitions | 7,496 | (6,037) |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale (adj.)** | **(1,907)** | **1,369** |
| | | |
| **Gains and losses on real estate transactions** | **3,631** | **8,231** |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale (adj.)** | **(1,907)** | **1,369** |
| **(+) Other non-interest income** | **29,109** | **102,015** |
| **(+) Gains and losses on derivative instruments** | **11,339** | **1,048** |
| **(+) Net insurance result** | **721** | **849** |
| **(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost** | **(2,396)** | **(849)** |
| (-) Received cash transfers | 65 | 174 |
| (+) Other other non-interest expenses | (5,800) | (6,778) |
| (+) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion | 128 | 1,862 |
| (-) Investment impairment in relation to the sale of Express Life Bulgaria (presented on the *Goodwill/investment impairment charges* adjustment line on consolidated level) | 0 | (163) |
| (-) Effect of acquisitions | 7,264 | 79,538 |
| (-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | 2,301 | 553 |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | (226) | (277) |
| (-) Impact of fines imposed by the Hungarian Competition Authority | 823 | 0 |
| (-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania | (216) | (483) |
| (+) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019 until 4Q 2019 | - | 1,914 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3,149 | (1,072) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | (1,646) | |
| (+) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | | 2,131 |
| **Net other non-interest result (adj.) with one-offs** | **29,610** | **31,376** |
| (-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre) | 0 | 0 |
| **Net other non-interest result (adj.) without one-offs** | **29,610** | **31,376** |

| | 2020 HUF million | 2019 HUF million |
|---|---|---|
| **Provision for impairment on loan and placement losses** | **(200,315)** | **(44,605)** |
| **(+) Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss** | **(3,262)** | **(4,376)** |
| **(+) Loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost** | **(7,309)** | **9** |
| **(+) Provision for commitments and guarantees given** | **(8,662)** | **(7,995)** |
| **(+) Impairment of assets subject to operating lease and of investment properties** | **877** | **280** |
| (+) Non-interest income from the release of pre-acquisition provisions | - | - |
| (-) Revaluation result of FX provisions | (10,997) | 5,176 |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | 459 | 263 |
| (+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB | 5,951 | 3,135 |
| (-) Effect of acquisitions | (2,149) | (19,868) |
| (-) One-off impact of regulatory changes related to FX consumer contracts in Serbia | 0 | (2,127) |
| (-) Structural correction between Provision for loan losses and Other provisions | (15,094) | (7,705) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (3,024) | (46) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | (29,543) | |
| (-) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | - | 139 |
| **Provision for impairment on loan and placement losses (adj.)** | **(158,421)** | **(29,474)** |
| **Dividend income** | **527** | **7,955** |
| (+) Received cash transfers | 65 | 174 |
| (+) Paid cash transfers | (12,768) | (13,195) |
| (-) Sponsorships, subsidies and cash transfers to public benefit organisations | (12,508) | (13,139) |
| (-) Dividend income of swap counterparty shares kept under the treasury share swap agreement | 0 | 5,710 |
| (-) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion | 128 | 1,862 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 8 | 3 |
| **After tax dividends and net cash transfers** | **213** | **505** |
| **Depreciation and goodwill impairment charges** | **(92,762)** | **(81,935)** |
| (-) Goodwill impairment charges | 0 | (4,887) |
| (-) Effect of acquisitions | (7,415) | (7,881) |
| (-) Reclassification due to the introduction of IFRS16 | (16,447) | (14,280) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (1,385) | (1,495) |
| **Depreciation (adj.)** | **(70,286)** | **(56,383)** |
| **Personnel expenses** | **(308,643)** | **(276,755)** |
| (-) Effect of acquisitions | (2,785) | (3,777) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (6,638) | (7,024) |
| **Personnel expenses (adj.)** | **(312,495)** | **(280,002)** |
| **Income taxes** | **(27,376)** | **(49,902)** |
| (-) Corporate tax impact of goodwill/investment impairment charges | 886 | (3,378) |
| (-) Corporate tax impact of the special tax on financial institutions | 1,773 | 1,623 |
| (+) Tax deductible transfers (offset against corporate taxes) | (8,083) | (3,802) |
| (-) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority | (74) | 0 |
| (-) Corporate tax impact of the effect of acquisitions | 497 | (5,713) |
| (-) Corporate tax impact of the one-off impact of regulatory changes related to FX consumer contracts in Serbia | 0 | 483 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 (corporate tax impact) | 0 | 146 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (80) | (56) |
| (-) Corporate tax impact of the expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 2,913 | |
| **Corporate income tax (adj.)** | **(41,534)** | **(46,921)** |
| **Other operating expense** | **(39,447)** | **(44,758)** |
| (-) Other costs and expenses | (7,506) | (9,172) |
| (-) Other non-interest expenses | (18,568) | (19,973) |
| (-) Effect of acquisitions | 1,022 | (7,575) |
| (-) Revaluation result of FX provisions | (141) | (40) |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | (233) | 14 |
| (-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania | 216 | 483 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | 1,420 |
| (+) Structural correction between *Provision for loan losses* and *Other provisions* | (15,094) | (7,705) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (243) | (12) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 0 | |
| **Other provisions (adj.)** | **(29,574)** | **(17,633)** |
| **Other general expenses** | **(306,263)** | **(282,528)** |
| (+) Other costs and expenses | (7,506) | (9,172) |
| (+) Other non-interest expenses | (18,568) | (19,973) |
| (-) Paid cash transfers | (12,768) | (13,195) |
| (+) Film subsidies and cash transfers to public benefit organisations | (12,508) | (13,139) |
| (-) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line | 0 | 0 |
| (-) Other other non-interest expenses | (5,800) | (6,778) |
| (-) Special tax on financial institutions (recognised as other administrative expenses) | (19,138) | (17,792) |
| (-) Tax deductible transfers (offset against corporate taxes) | (8,083) | (3,802) |
| (-) Financial Transaction Tax | (61,588) | (61,920) |
| (-) Effect of acquisitions | (9,940) | (10,963) |
| (+) Reclassification due to the introduction of IFRS16 | (18,069) | (15,933) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (4,105) | (5,003) |
| **Other non-interest expenses (adj.)** | **(249,702)** | **(231,298)** |

## ADJUSTMENTS OF CONSOLIDATED IFRS BALANCE SHEET LINES

| | 2020<br>HUF million | 2019<br>HUF million |
|---|---|---|
| **Cash, amounts due from Banks and balances with the National Banks** | 2,432,312 | 1,784,378 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 3 | 57,586 |
| **Cash, amounts due from Banks and balances with the National Banks (adjusted)** | 2,432,314 | 1,841,963 |
| | | |
| **Placements with other banks, net of allowance for placement losses (including net repo receivables in 2019)** | 1,148,744 | 410,078 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 244 | 354 |
| **Placements with other banks, net of allowance for placement losses (adjusted)** | 1,148,987 | 410,433 |
| | | |
| **Financial assets at fair value through profit or loss** | 234,006 | 251,991 |
| (+) Allocation of Assets classified as held for sale among balance sheet lines | 1,188 | |
| **Financial assets at fair value through profit or loss (adjusted)** | 235,194 | 251,991 |
| | | |
| **Securities at fair value through other comprehensive income** | 2,136,709 | 2,426,779 |
| (+) Allocation of Assets classified as held for sale among balance sheet lines | 3,410 | 759 |
| **Securities at fair value through other comprehensive income (adjusted)** | 2,140,118 | 2,427,537 |
| | | |
| **Gross customer loans (incl. loans at amortized cost and loans mandatorily at fair value through profit or loss) (incl. accrued interest receivables related to loans)** | 13,326,189 | 11,603,116 |
| **Gross finance lease receivables** | 1,075,742 | 982,853 |
| **Gross customer loans (incl. finance lease receivables and accrued interest receivables related to loans)** | 14,401,930 | 12,585,969 |
| (-) Accrued interest receivables related to DPD90+ / Stage 3 loans | 38,650 | 35,450 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 0 | 391,490 |
| **Gross customer loans (adjusted)** | 14,363,281 | 12,942,009 |
| | | |
| **Allowances for loan losses (incl. impairment of finance lease receivables)** | (873,344) | (706,907) |
| (-) Allocated provision on accrued interest receivables related to DPD90+ / Stage 3 loans | (38,650) | (35,450) |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 0 | (23,033) |
| **Allowances for loan losses (adjusted)** | (834,695) | (694,490) |
| | | |
| **Securities at amortized costs** | 2,624,921 | 1,968,072 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 1,031 | 27,555 |
| **Securities at amortized costs (adjusted)** | 2,625,952 | 1,995,627 |
| | | |
| **Tangible and intangible assets, net** | 589,743 | 595,128 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 135 | 10,545 |
| **Tangible and intangible assets, net (adjusted)** | 589,878 | 605,673 |
| | | |
| **Other assets (including net repo receivables in 2020)** | 588,378 | 785,456 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | (6,010) | (465,255) |
| **Other assets (adjusted)** | 582,368 | 320,201 |
| | | |
| **Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss (including repo liabilities in 2019)** | 1,219,446 | 844,261 |
| (+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines | 0 | 1,898 |
| **Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss (adjusted)** | 1,219,446 | 846,158 |
| | | |
| **Deposits from customers** | 17,890,863 | 15,171,308 |
| (+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines | 0 | 351,346 |
| **Deposits from customers (adjusted)** | 17,890,863 | 15,522,654 |
| | | |
| **Other liabilities (including repo liabilities in 2020)** | 949,502 | 1,171,805 |
| (+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines | 0 | (353,244) |
| **Other liabilities (adjusted)** | 949,502 | 818,561 |
| | | |
| **Subordinated bonds and loans** | 274,704 | 249,938 |
| (+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines | 0 | |
| **Subordinated bonds and loans (adjusted)** | 274,704 | 249,938 |

## STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| **NET INTEREST INCOME** | **221,666** | **204,512** | **8** |
| **Interest incomes and similar to interest incomes** | **321,296** | **323,896** | **(1)** |
| **Interest expenses total** | **(99,630)** | **(119,384)** | **(17)** |
| **Risk cost total** | **(66,765)** | **(39,881)** | **67** |
| Loss allowance on loan, placement and repo receivables losses | (61,310) | (29,056) | 111 |
| Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost | (1,848) | 401 | (561) |
| Provision for loan commitments and financial guarantees given | (3,202) | (5,794) | (45) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | (405) | (5,432) | (93) |
| **NET INTEREST INCOME AFTER RISK COST** | **154,901** | **164,631** | **(6)** |
| **MODIFICATION LOSS** | **(17,358)** | **-** | |
| **NET PROFIT FROM FEES AND COMMISSIONS** | **219,031** | **213,363** | **3** |
| **Income from fees and commissions** | **259,781** | **248,954** | **4** |
| **Expenses from fees and commissions** | **(40,750)** | **(35,591)** | **14** |
| **NET OPERATING INCOME** | **60,632** | **130,358** | **(53)** |
| Foreign exchange (losses) and gains | (4,518) | 3,288 | (237) |
| Gains on securities, net | 17,955 | 8,188 | 119 |
| *from this: gain from derecognition of securities at amortised cost* | 360 | 714 | (50) |
| Gains on financial instruments at fair value through profit or loss | (671) | 1,260 | (153) |
| Gains on deivative instruments, net | 7,057 | 4,715 | 50 |
| Dividend income | 60,973 | 78,887 | (23) |
| Other operating income | 7,900 | 7,505 | 5 |
| Other operating expenses | (28,064) | 26,515 | (206) |
| **OTHER ADMINISTRATIVE EXPENSES** | **(323,960)** | **(305,158)** | **6** |
| Personnel expenses | (118,498) | (115,035) | 3 |
| Depreciation and amortization | (38,948) | (29,925) | 30 |
| Other general expenses | (166,514) | (160,198) | 4 |
| **PROFIT BEFORE INCOME TAX** | **93,246** | **203,194** | **(54)** |
| Income tax | (772) | (9,840) | (92) |
| **NET PROFIT FOR THE YEAR** | **92,474** | **193,354** | **(52)** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 579,120 | 289,686 | 100 |
| Placements with other banks, net of allowance for placement losses | 1,535,884 | 1,560,142 | (2) |
| Repo receivables | 183,364 | 45,539 | 303 |
| Financial assets at fair value through profit or loss | 160,483 | 172,229 | (7) |
| Financial assets at fair value through other comprehensive income | 911,950 | 1,485,977 | (39) |
| Securities at amortised cost | 2,007,692 | 1,447,224 | 39 |
| Loans at amortised cost and mandatorily measured at fair value through profit or loss | 3,898,697 | 3,315,069 | 18 |
| Investments in subsidiaries | 1,548,972 | 1,542,538 | 0 |
| Property and equipment | 77,974 | 77,754 | 0 |
| Intangible assets | 57,639 | 53,282 | 8 |
| Right of use assets | 13,479 | 13,607 | (1) |
| Investments properties | 1,936 | 2,381 | (19) |
| Current tax assets | 593 | - | |
| Derivative financial assets designated as hedge accounting relationships | 6,817 | 16,677 | (59) |
| Other assets | 169,794 | 116,699 | 45 |
| **TOTAL ASSETS** | **11,154,394** | **10,138,804** | **10** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 766,977 | 738,054 | 4 |
| Repo liabilities | 109,612 | 462,621 | (76) |
| Deposits from customers | 7,895,735 | 6,573,550 | 20 |
| Leasing liabilities | 14,106 | 13,660 | 3 |
| Liabilities from issued securities | 28,435 | 43,284 | (34) |
| Financial liabilities at fair value through profit or loss | 25,902 | 28,861 | (10) |
| Derivative financial liabilities designated as held for trading | 99,987 | 83,088 | 20 |
| Derivative financial liabilities designated as hedge accounting relationships | 3,104 | 10,023 | (69) |
| Deferred tax liabilities | 3,062 | 5,875 | (48) |
| Current tax liabilities | - | 2,896 | |
| Other liabilities | 224,897 | 243,780 | (8) |
| Subordinated bonds and loans | 304,243 | 279,394 | 9 |
| **TOTAL LIABILITIES** | **9,476,060** | **8,485,086** | **12** |
| Share capital | 28,000 | 28,000 | 0 |
| Retained earnings and reserves | 1,697,133 | 1,628,354 | 4 |
| Treasury shares | (46,799) | (2,636) | |
| **TOTAL SHAREHOLDERS' EQUITY** | **1,678,334** | **1,653,718** | **1** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **11,154,394** | **10,138,804** | **10** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Interest income calculated using the effective interest method | 841,901 | 762,639 | 10 |
| Income similar to interest income | 135,986 | 133,497 | 2 |
| Interest incomes | 977,887 | 896,136 | 9 |
| Interest expenses | (195,216) | (197,095) | (1) |
| **NET INTEREST INCOME** | **782,671** | **699,041** | **12** |
| **Risk cost total** | **(218,670)** | **(56,687)** | **286** |
| Loss allowance / Release of loss allowance on loans, placements and repo receivables | (200,315) | (44,605) | 349 |
| Loss allowance / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost | (3,262) | (4,376) | (25) |
| Loss allowance / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost | (7,309) | 9 | |
| Provision for commitments and guarantees given | (8,662) | (7,995) | 8 |
| Impairment / (Release of impairment) of assets subject to operating lease and of investment properties | 878 | 280 | 214 |
| **NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS** | **564,001** | **642,354** | **(12)** |
| Income from fees and commissions | 486,529 | 447,084 | 9 |
| Expense from fees and commissions | (88,896) | (72,903) | 22 |
| **Net profit from fees and commissions** | **397,633** | **374,181** | **6** |
| Foreign exchange gains / losses, net | 19,204 | 6,782 | 183 |
| Foreign exchange result | 7,864 | 5,734 | 37 |
| Gains and losses on derivative instruments | 11,339 | 1,048 | 982 |
| Gains / Losses on securities, net | 16,106 | 11,611 | 39 |
| Gains / Losses on financial assets /liabilities measured at fair value through profit or loss | (2,396) | (849) | 182 |
| Dividend income and gain / loss from associated companies | 527 | 7,955 | (93) |
| Other operating income | 33,461 | 111,093 | (70) |
| Gains and losses on real estate transactions | 3,631 | 8,231 | (56) |
| Other non-interest income | 29,109 | 102,015 | (71) |
| Net insurance result | 721 | 849 | (15) |
| Other operating expense | (39,447) | (44,758) | (12) |
| **Net operating income** | **27,455** | **91,834** | **(70)** |
| Personnel expenses | (308,642) | (276,754) | 12 |
| Depreciation and amortization | (92,761) | (77,048) | 20 |
| Goodwill impairment | 0 | (4,887) | (100) |
| Other general expenses | (306,264) | (282,528) | 8 |
| **Other administrative expenses** | **(707,667)** | **(641,217)** | **10** |
| **PROFIT BEFORE INCOME TAX** | **281,422** | **467,152** | **(40)** |
| Income tax expense | (27,376) | (49,902) | (45) |
| **NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **254,046** | **417,250** | **(39)** |
| From this, attributable to: | | | |
| Non-controlling interest | 220 | 341 | (35) |
| Owners of the company | 253,826 | 416,909 | (39) |
| **DISCONTINUED OPERATIONS** | | | |
| Gains from disposal of subsidiaries classified as held for sale | 199 | 0 | |
| Loss from discontinued operation | 5,391 | (4,668) | (215) |
| **PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION** | **259,636** | **412,582** | **(37)** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2,432,312 | 1,784,378 | 36 |
| Placements with other banks, net of loss allowance for placements | 1,148,743 | 342,922 | 235 |
| Repo receivables | 190,849 | 67,157 | 184 |
| Financial assets at fair value through profit or loss | 234,007 | 251,990 | (7) |
| Securities at fair value through other comprehensive income | 2,136,709 | 2,426,779 | (12) |
| Loans at amortized cost and mandatorily at fair value through profit or loss | 12,477,447 | 10,909,799 | 14 |
| Finance lease receivables | 1,051,140 | 969,263 | 8 |
| Associates and other investments | 52,443 | 20,822 | 152 |
| Securities at amortized cost | 2,624,920 | 1,968,072 | 33 |
| Property and equipment | 322,766 | 320,430 | 1 |
| Intangible assets and goodwill | 239,004 | 242,219 | (1) |
| Right-of-use assets | 46,283 | 52,950 | (13) |
| Investment properties | 38,601 | 41,560 | (7) |
| Derivative financial assets designated as hedge accounting | 6,820 | 7,463 | (9) |
| Deferred tax assets | 22,317 | 26,543 | (16) |
| Current income tax receivable | 38,936 | 12,769 | 205 |
| Other assets | 266,474 | 214,580 | 24 |
| Assets classified as held-for-sale | 6,070 | 462,071 | (99) |
| **TOTAL ASSETS** | **23,335,841** | **20,121,767** | **16** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 1,185,315 | 812,911 | 46 |
| Repo liabilities | 117,991 | 488 | |
| Financial liabilities at fair value through profit or loss | 34,131 | 30,862 | 11 |
| Deposits from customers | 17,890,863 | 15,171,308 | 18 |
| Liabilities from issued securities | 464,213 | 393,167 | 18 |
| Derivative financial liabilities held for trading | 104,823 | 86,743 | 21 |
| Derivative financial liabilities designated as hedge accounting | 11,341 | 10,709 | 6 |
| Leasing liabilities | 48,451 | 54,194 | (11) |
| Deferred tax liabilities | 25,990 | 29,195 | (11) |
| Current income tax payable | 27,684 | 35,928 | (23) |
| Other liabilities | 607,737 | 592,540 | 3 |
| Subordinated bonds and loans | 274,704 | 249,938 | 10 |
| Liabilities directly associated with assets classified as held-for-sale | 5,486 | 362,496 | (98) |
| **TOTAL LIABILITIES** | **20,798,729** | **17,830,479** | **17** |
| Share capital | 28,000 | 28,000 | 0 |
| Retained earnings and reserves | 2,629,076 | 2,319,263 | 13 |
| Treasury shares | (124,080) | (60,931) | 104 |
| Non-controlling interest | 4,116 | 4,956 | (17) |
| **TOTAL SHAREHOLDERS' EQUITY** | **2,537,112** | **2,291,288** | **11** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **23,335,841** | **20,121,767** | **16** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

# BUSINESS REPORT
# OTP BANK (CONSOLIDATED)

## CONSOLIDATED FINANCIAL HIGHLIGHTS[9] AND SHARE DATA

| Main components of the adjusted Statement of recognised income | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| Adjustments (total) | (6,470) | (50,631) | 683 |
| **Consolidated adjusted after tax profit** without the effect of adjustments | **419,052** | **310,268** | **(26)** |
| Pre-tax profit | 465,973 | 351,802 | (25) |
| Operating profit | 510,045 | 537,437 | 5 |
| Total income | 1,077,727 | 1,169,920 | 9 |
| Net interest income | 706,298 | 788,079 | 12 |
| Net fees and commissions | 282,504 | 293,112 | 4 |
| Other net non-interest income | 88,926 | 88,729 | 0 |
| Operating expenses | (567,682) | (632,483) | 11 |
| Total risk costs | (47,107) | (187,995) | 299 |
| One off items | 3,034 | 2,360 | (22) |
| Corporate taxes | (46,921) | (41,534) | (11) |
| **Main components of the adjusted balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 20,121,767 | 23,335,841 | 16 |
| **Total customer loans (net, FX adjusted)** | **12,902,518** | **13,528,586** | **5** |
| **Total customer loans (gross, FX adjusted)** | **13,605,264** | **14,363,281** | **6** |
| Allowances for possible loan losses (FX adjusted) | (702,746) | (834,695) | 19 |
| **Total customer deposits (FX adjusted)** | **16,260,599** | **17,890,863** | **10** |
| Issued securities | 393,167 | 464,213 | 18 |
| Subordinated loans | 249,938 | 274,704 | 10 |
| Total shareholders' equity | 2,291,288 | 2,537,112 | 11 |
| **Indicators based on adjusted earnings** | **2019** | **2020** | **pps** |
| ROE (from accounting net earnings) | 20.3% | 10.9% | (9.4) |
| ROE (from adjusted net earnings) | 20.6% | 13.0% | (7.6) |
| ROA (from adjusted net earnings) | 2.4% | 1.4% | (1.0) |
| Operating profit margin | 2.97% | 2.47% | (0.51) |
| Total income margin | 6.28% | 5.37% | (0.92) |
| Net interest margin | 4.12% | 3.61% | (0.50) |
| Cost-to-asset ratio | 3.31% | 2.90% | (0.41) |
| Cost/income ratio | 52.7% | 54.1% | 1.4 |
| Provision for impairment on loan and placement losses-to-average gross loans ratio | 0.28% | 1.15% | 0.87 |
| Total risk cost-to-asset ratio | 0.27% | 0.86% | 0.59 |
| Effective tax rate | 10.1% | 11.8% | 1.7 |
| Net loan/(deposit+retail bond) ratio (FX adjusted) | 79% | 76% | (3) |
| Capital adequacy ratio[10] (consolidated, IFRS) - Basel3 | 16.8% | 17.7% | 1.0 |
| Tier1 ratio[2] - Basel3 | 14.4% | 15.4% | 1.0 |
| Common Equity Tier 1 ('CET1') ratio[2] - Basel3 | 14.4% | 15.4% | 1.0 |
| **Share Data** | **2019** | **2020** | **%** |
| EPS diluted (HUF) (from unadjusted net earnings) | 1,575 | 1,003 | (36) |
| EPS diluted (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| Closing price (HUF) | 15,430 | 13,360 | (13) |
| Highest closing price (HUF) | 15,600 | 15,630 | 0 |
| Lowest closing price (HUF) | 11,270 | 8,010 | (29) |
| Market Capitalization (EUR billion) | 13.1 | 10.2 | (22) |
| Book Value Per Share (HUF) | 8,183 | 9,061 | 11 |
| Tangible Book Value Per Share (HUF) | 7,362 | 8,436 | 15 |
| Price/Book Value | 1.9 | 1.5 | (21) |
| Price/Tangible Book Value | 2.1 | 1.6 | (24) |
| P/E (trailing, from accounting net earnings) | 10.5 | 14.4 | 37 |
| P/E (trailing, from adjusted net earnings) | 10.3 | 12.1 | 17 |
| Average daily turnover (EUR million) | 16 | 22 | 38 |
| Average daily turnover (million share) | 0.4 | 0.7 | 75 |

[9] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.

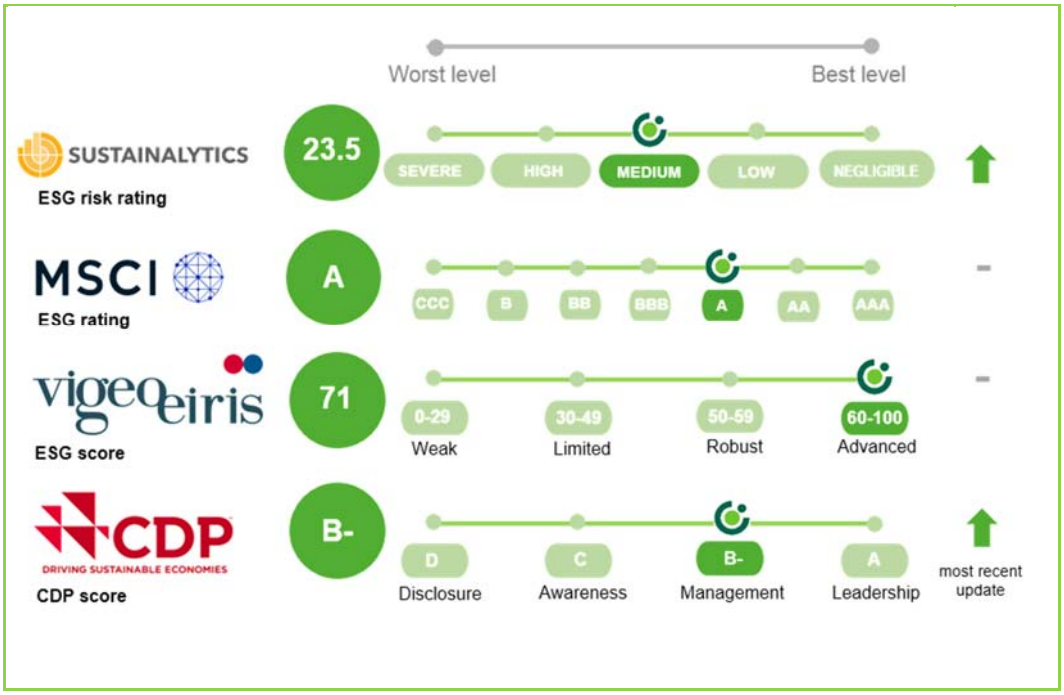
[10] Concerning 4Q 2019 capital adequacy ratios, the figures presented in this report do not include deducted dividend. This is consistent with the decision made by the Board of Directors on the 30th of April 2020, acting on behalf of the AGM, about the retainment of profit generated in 2019. These capital adequacy ratios differ from those presented in the Summary of the Group's 4Q 2019 results, and the 2019 Annual Report.

General note: in the tables of the Business Report those changes aren't presented that are deemed not to carry a meaningful economic substance (for example, if the absolute value of the change exceeds 1,000%).

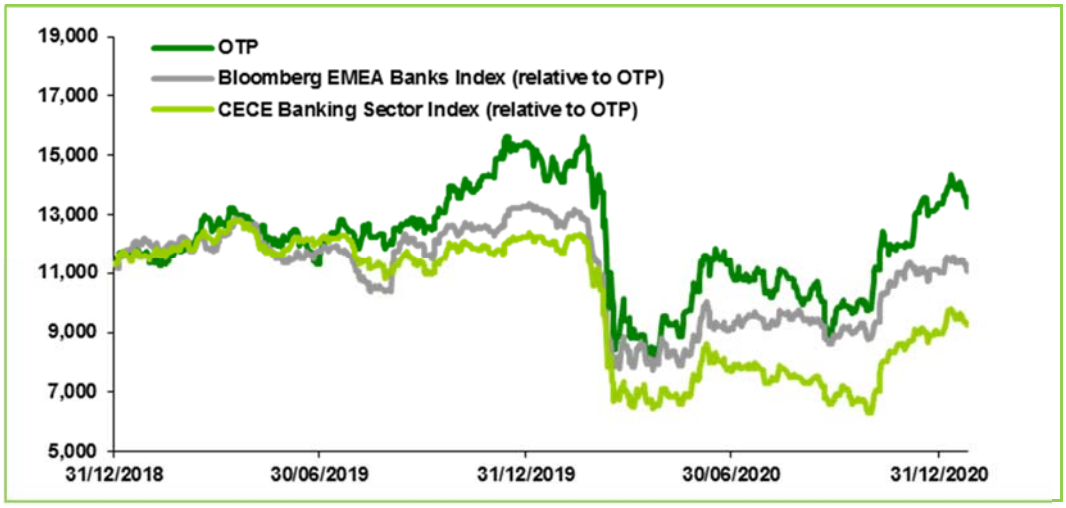
## ACTUAL CREDIT RATINGS

| S&P GLOBAL RATINGS | |
|---|---|
| OTP Bank and OTP Mortgage Bank – FX Long term credit rating | BBB |
| | |
| **MOODY'S** | |
| OTP Bank – FX long term deposits | Baa1 |
| | |
| OTP Bank – Subordinated Foreign Currency Debt | Ba1 |
| | |
| OTP Mortgage Bank – Covered mortgage bond | A2 |
| | |
| **FITCH** | |
| OTP Bank Russia – Long term credit rating | BB+ |

## ACTUAL ESG RATINGS




## SHARE PERFORMANCE



## MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2020 RESULTS OF OTP GROUP

According to the detailed GDP data published on 2 March 2021, in 4Q the Hungarian economy grew by 1.4% q-o-q, as a result, the annual GDP declined by 5.0% y-o-y.

The lower than expected erosion was mainly due to the targeted and successful measures implemented by the Government and the National Bank of Hungary (NBH) in order to contain the economic contraction. Those steps were essential to moderate the increase of unemployment; by the end of 2020 employment level practically matched the previous year's figure. The family supporting schemes and housing subsidies, as well as measures boosting local ventures created the preconditions for a meaningful economic kick start in 2021.

Monetary policy conditions remained loose in 2020, and the NBH increased the available amounts within the framework of both the *Funding for Growth Go!* scheme and the Bond Funding for Growth programme, and increased the weight of government bonds in its balance sheet. With temporary easing of the capital buffer requirements, NBH supported the lending activity of banks.

Out of the numerous measures made at the end of 2020, the extension of the payment moratorium by the Parliament on 20 December until 30 June 2021, leaving participation conditions unchanged, had a paramount importance.

The average inflation for 2020 was 3.3%. The policy rate came down by 30 bps to 60 bps, while interbank rates shifted upward: the reference rate (3M BUBOR) increased y-o-y from 16 bps to 75 bps. The Hungarian Forint on average weakened against the euro by 8% y-o-y amid substantial volatility.

According to the Central Bank's report published on 3 February 2021, despite the economic recession caused by the pandemic, in 2020 both household and corporate loan volumes expanded dynamically: the former increased by 14%, while the latter by 13%, respectively. The payment moratorium had a positive impact on exposures, since there was no principal amortization. Within household volumes the key engine was the subsidized baby loans, the total outstanding book grew by 130% y-o-y on sector level and their volumes reached HUF 1,064.5 billion by the end of 2020. Cash loans advanced by 12%, housing loans by 10%, respectively; on the other hand, home equity loans eroded by 5% y-o-y.

Most of the local economies within OTP Group suffered lower contraction than originally anticipated, especially in countries with a relatively low weight of tourism or service sector, like Russia, Ukraine and Serbia. In order to efficiently cure the recession, massive government measures were implemented, and in several countries, that was coupled with numerous and larger scale interest rate cuts by the central banks. Moreover, with the exception of Ukraine, all other countries introduced payment moratoriums with different conditions and duration.

### Consolidated earnings: HUF 310 billion adjusted annual after tax profit, stable portfolio quality, 9% y-o-y performing FX-adjusted organic loan growth

Despite the extraordinary challenges triggered by the pandemic, in 2020 the overall operation of the Group remained uninterrupted. It was quite an achievement that out of the previous acquisitions, the Bulgarian integration was completed in early May 2020, as well as the Montenegrin one in December. The sale of the Slovakian subsidiary was completed by the end of November.

The total volume of adjustment items in 2020 represented -HUF 50.6 billion (after tax) within the HUF 260 billion accounting profit, underpinning a sizeable increase y-o-y. The larger adjustment items occurring in 2020 were as follows:

- In 2020 as a whole the one-off impact of the loan repayment moratoria was -HUF 28.3 billion. In Hungary the first phase of the moratorium on loan payments was effective from 19 March 2020 to 31 December 2020. The moratorium was extended in unchanged form for the period between 1 January 2021 – 30 June 2021. During the term of the moratorium OTP Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues. At the same time, due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later, altogether HUF 28.3 billion (after tax) loss emerged in Hungary and Serbia. Out of this amount the expected one-off negative impact of the extended moratorium in Hungary (effective from 1 January to 30 June 2021) represented -HUF 9.1 billion (after tax), calculated on the base of year-end participation rate: at the end of December 37% of the combined gross loan portfolio at OTP Core and Merkantil Group was under the moratorium representing HUF 1,881 billion. This amount was recognized in December 2020. Also, within that amount there was a -HUF 1.7 billion (after tax) negative impact in relation to the Serbian deferral scheme, as the original interest calculation method was changed by the local regulator (originally the compound interest method was allowed by the law in Serbia, but charging interest on

deferred interest was retrospectively disallowed by the regulator). In case of other foreign subsidiaries the Bank didn't assume any meaningful negative NPV impact as a result of the moratoria.

- -HUF 17.4 billion negative impact of banking tax paid at the Hungarian and Slovakian subsidiaries (after tax), the latter was paid only until 30 June 2020;
- -HUF 6.9 billion appeared on the effect of acquisitions line (after tax) which, among others, incorporated the integration costs in Bulgaria, Serbia, Slovenia, Albania, Moldova and Montenegro; also, provisions made in 4Q 2019 for the divestment of the subsidiary were released with a positive impact of HUF 6 billion (after tax);

The full-year 2020 consolidated adjusted after tax profit exceeded HUF 310 billion (-26% y-o-y). The adjusted ROE stood at 13%.

Since the after tax results were heavily distorted by the volume of total risk costs (HUF 188 billion related mainly to the pandemic situation), general trends are better illustrated and easier compared to base periods through the development of operating income.

In 2020 OTP Group posted HUF 537.4 billion consolidated operating income underpinning a 5% y-o-y increase (-4%, without acquisitions, FX-adjusted[11]). Total income increased dynamically (+9% y-o-y) with net interest income surging by 12% y-o-y, while net fees & commissions grew at a slower pace (+4%) and other net non-interest income remained flat y-o-y. The weaker increase in net fees & commissions on one hand was shaped by a drop in business activity in the first half of the year induced by the pandemic, and also by a lower success fee income compared to a record high performance in 2019 at OTP Fund Management (Hungary).

The consolidated NIM eroded substantially (2020: 3.61%, -50 bps y-o-y) due to several reasons: on one hand the interest rate environment declined substantially in a few countries (Russia, Ukraine, Romania, Serbia); furthermore, new subsidiaries consolidated into OTP Group usually operated with lower margins than the Group as a whole. Also, as a side-effect of the pandemic, demand for the higher margin consumer loans dropped, while the competition intensified. That was only partially offset by the positive impact of FX rate moves related to weaker HUF. The annual net interest income adjusted for acquisitions effects grew by 2% y-o-y (FX-adjusted), as a result of higher performing loan volumes.

Consolidated annual operating costs nominally advanced by 11% y-o-y, however adjusted for the acquisitions (2Q 2019: the Albanian subsidiary, 2H 2019: the Montenegrin, Moldovan, Serbian and from January 2020 the Slovenian subsidiaries) and for the sale of Slovakia, the FX-adjusted expense growth was only 2.4% y-o-y. The COVID-related measures, as well as the donations resulted in around HUF 7.5 billion extra expenses on a Group level. The consolidated cost-to-income ratio stood at 54.1% (+1.4 pps y-o-y).

Except the Moldovan operation, adjusted earnings declined everywhere across the Group y-o-y. Out of the adjusted annual profit the contribution of the non-Hungarian operations dropped from 46% to 41%.

Apart from Russian performing (Stage 1+2) loan book where the y-o-y drop exceeded 10%, and the marginal decline of the Slovenian portfolio, all other Group members demonstrated loan growth (FX-adjusted). Out of the major Group members the Hungarian (+17%), Serbian (+16%), Romanian (+13%) and Ukrainian (+11%) organic loan expansion rates were the most remarkable. In Hungary the excellent volume dynamics were coupled with improving market share in most of the loan categories.

As for the major credit categories in 2020 the FX-adjusted Stage 1+2 micro and small enterprise book advanced organically the fastest y-o-y (+11%), followed by the mortgage loan portfolio (+10%), the consumer exposures (+9%) and the large corporate book (+8%).

During the course of 2020 lending activity to a great extent was shaped by easing/lifting lockdowns and limitations, but targeted Government programmes helped, too. The second wave of COVID-19 pandemic had a more limited impact on business activity, also, seasonality affected lending.

One of the side effects of the pandemic was that while household consumption and investment activity of corporates suffered setback, savings demonstrated steady growth. The FX-adjusted deposit portfolio grew by 10% y-o-y. Such yearly increase translated into more than HUF 2,000 billion deposit volume surge (already adjusted for the Slovakian deposit volumes). Out of the major operations the Ukrainian, Romanian, Hungarian, Slovenian and Serbian subsidiaries captured double digit volume increase. The consolidated net loan-to-deposit ratio declined to 76% q-o-q.

[11] On 11 December 2020, Podgoricka banka AD Podgorica was merged into Crnogorska komercijalna banka AD, thus separate financial statements for Podgoricka were not available for December. Therefore, profit dynamics without acquisitions are based on estimated numbers.

At the end of 2020 the gross operative liquidity reserves of the Group comprised EUR 8.9 billion equivalent. The NBH acting as resolution authority on 16 October 2020 informed the Bank about the consolidated minimum requirement for own funds and eligible liabilities (MREL requirement) of OTP Group. NBH didn't set intermediate target to be met by end of 2020, but determined a mandatory intermediate target for the consolidated MREL requirement that OTP Group has to comply with by 1 January 2022. This level is 11.55% of the Group's total liabilities and own funds (TLOF) which corresponds to 17.16% of the Group's total risk exposure amount (TREA or RWA). In 2020 no international bond transaction was executed.

The consolidated loan portfolio quality – partly due to the existing or extended payment moratorium – remained relatively stable in 2020: the DPD90+ volume growth (adjusted for FX and the effect of sales and write-offs, as well as for the revaluation of Factoring claims in Hungary) amounted to HUF 85 billion, against
HUF 66 billion in 2019. The consolidated DPD90+ ratio declined below 4% (3.8%, -0.4 pp y-o-y).

The Stage 1+2 exposures (HUF 13,544 billion) comprised 94.3% of total gross loans. Within that Stage 1 loans represented 80.4% of total gross loans and the Stage 2 ratio was 13.9%.

The Stage 3 ratio under IFRS 9 was 5.7% at end of 2020 (-0.2 pp y-o-y). The own coverage of Stage 1, 2 and 3 exposures was 1.0%, 10.4% and 62.3%, respectively.

Within the consolidated loan portfolio in 1Q a significant volume of corporate exposures was shifted from Stage 1 into the riskier Stage 2 category on a collective base, whereas in case of retail exposures the Bank implemented higher provision coverage during the first two quarters. In 3Q a practice similar to that used in the case of corporate exposures was followed in case of the household portfolio. Mainly those exposures were reclassified where the Bank presumed higher potential risk, though this had not materialized yet due to the moratoria, in particular at the Hungarian, Bulgarian, Croatian, Romanian and Serbian operations.

In 4Q the Group further fine-tuned its Stage 2 classification methodology: in case of corporate exposures it identified clients with higher risk profile within the framework of its monitoring process on a case by case basis, whereas for household loans it rather used its internal ratings. As a result, Stage 2 volumes increased at certain operations. The extension of the moratorium and the EBA guidance issued on 2 December 2020 on the treatment of exposures within existing or extended payment moratoria schemes (EBA/GL/2020/15) induced further tightening in the methodology compared to 3Q; particularly in the case of OTP Core.

The adjusted total risk costs represented -HUF 188 billion in 2020 as a whole. Within that credit risk costs increased to -HUF 158.4 billion and the annual credit risk cost rate was 1.15% of the average gross loan volumes.

### *Consolidated capital adequacy ratio (in accordance with BASEL III)*

At the end of December 2020 the consolidated Common Equity Tier 1 ratio under IFRS was 15.4% (+1 pp y-o-y). This ratio equals to the Tier 1 ratio.

The amount of eligible profit included into regulatory capital equals to the annual profit (HUF 259 billion) reduced by the deducted dividend (HUF 119 billion). The deducted dividend amount for 2020 was determined in accordance with the Commission Delegated Regulation (EU) No. 241/2014. Article 2. (7) Paragraph. Accordingly, in the absence of a stated dividend policy, the amount of the dividend to be deducted should be calculated as follows: out of the previous three years' average dividend payment ratio and that of the preceding year the higher ratio must be applied. The dividend amount must be calculated from OTP Group's consolidated accounting profit, and this must be deducted from the consolidated regulatory capital. However, the deducted dividend also included HUF 69.44 billion, the original dividend proposal by the management after the 2019 fiscal year, which wasn't paid out in accordance with the National Bank of Hungary's recommendation.

### *Credit rating, shareholder structure*

On 27 January 2020 S&P Global Ratings upgraded OTP Bank Plc's and OTP Mortgage Bank's short- and long-term issuer credit ratings from 'BBB-/A-3' to 'BBB/A-2'. At the same time S&P affirmed its 'BBB/A-2' long- and short-term resolution counterparty ratings on OTP and OTP Mortgage Bank. The outlook remained stable for both banks.

On 29 September 2020 Moody's changed the outlook from stable into positive on OTP Bank Plc's long-term FX deposit rating; furthermore, on 10 December Moody's upgraded OTP Bank Plc's long-term FX deposit rating from 'Baa3' to 'Baa1' with stable outlook. On 2 April 2020 Moody's changed the outlook on OTP Mortgage Bank's issuer rating ('Baa2') from stable into negative. OTP Mortgage Bank's covered bond rating remained 'Baa1'.

OTP Bank Russia's 'BB+' rating by Fitch is unchanged, on 23 April 2020, however, the outlook was changed from stable to negative. Regarding the ownership structure of the Bank, on 31 December 2020 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.71%), the Kafijat Group (7.20%), OPUS Securities SA (5.26%) and Groupama Group (5.20%).

## POST-BALANCE SHEET EVENTS

*Post-balance sheet events cover the period until 19 February 2021.*

### Hungary

- Effective from 13 January 2021 the National Bank of Hungary extended the available amount for the Bond Funding for Growth scheme by HUF 750 billion to HUF 1,150 billion. At the same time it decided to increase the maximum maturity of corporate bonds that can be purchased by the central bank from 20 to 30 years. Also, the central bank's exposure limit to a company group was revised from HUF 50 billion to HUF 70 billion.
- On 4 February 2021 the Prime Minister announced an interest-free loan programme for companies in trouble in the wake of the pandemic. According to Government Resolution 1038/2021. (II. 5.) the programme will be administered by the Hungarian Development Bank, and the available amount under the programme will be HUF 100 billion. Companies can take out maximum HUF 10 million each for the purpose of covering wages and social contributions, overhead costs, general operating expenses and inventory financing. Client interest rate is 0%, the loan tenor can be up to 10 years, and the servicing of the loan will start after a 3 year grace period. The scope of eligible entities will be discussed with the Hungarian Chamber of Commerce and Industry.
- On 16 February 2021 the Hungarian Statistical Office revealed the preliminary 4Q 2020 GDP statistics. Accordingly, in the fourth quarter the Hungarian economy grew by 1.1% q-o-q (seasonally and working day adjusted), but contracted by 5.1% y-o-y in 2020 as a whole.

### Bulgaria

- On 19 February 2021 Fitch Ratings reaffirming Bulgaria's sovereign 'BBB' debt rating, and changed the outlook from stable to positive.

### Croatia

- On 4 February 2021 the European Central Bank and the Croatian National Bank agreed to extend the euro liquidity line until the end of March 2022.

### Serbia

- On 4 February 2021, the European Central Bank extended the maintenance of a repo facility providing euro-based liquidity to the National Bank of Serbia in order to help with possible liquidity needs in euros during post-epidemic market disruptions.

### Romania

- On 15 January 2021 the National Bank of Romania decided to reduce the key interest rate by 25 bps to 1.25%.

### Russia

- On 20 January 2021 the Central Bank of Russia published its 2021-2022 road map for regulating consumer lending, as a result loosening measures taken in 2020 to facilitate lending will be reversed through higher risk weights being introduced.

## CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[12]

| | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| **Adjustments (total)** | **(6,470)** | **(50,631)** | **683** |
| **Consolidated adjusted after tax profit without the effect of adjustments** | **419,052** | **310,268** | **(26)** |
| Banks total[1] | 382,144 | 285,103 | (25) |
| OTP Core (Hungary)[2] | 190,956 | 159,303 | (17) |
| DSK Group (Bulgaria)[3] | 67,879 | 40,957 | (40) |
| OBH (Croatia)[4] | 30,719 | 14,830 | (52) |
| OTP Bank Serbia[5] | 10,430 | 7,298 | (30) |
| SKB Banka (Slovenia) | - | 9,665 | |
| OTP Bank Romania[6] | 6,309 | 1,558 | (75) |
| OTP Bank Ukraine[7] | 35,223 | 26,104 | (26) |
| OTP Bank Russia[8] | 28,127 | 16,317 | (42) |
| CKB Group (Montenegro)[9] | 6,377 | 4,307 | (32) |
| OTP Bank Albania | 2,616 | 1,959 | (25) |
| Mobiasbanca (Moldova) | 1,936 | 3,973 | 105 |
| OBS (Slovakia)[10] | 1,575 | (1,169) | (174) |
| Leasing | 7,115 | 7,661 | 8 |
| Merkantil Group (Hungary)[11] | 7,115 | 7,661 | 8 |
| Asset Management | 15,208 | 9,824 | (35) |
| OTP Asset Management (Hungary) | 15,104 | 9,747 | (35) |
| Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[12] | 104 | 77 | (26) |
| Other Hungarian Subsidiaries | 9,498 | 8,241 | (13) |
| Other Foreign Subsidiaries[13] | 232 | 108 | (53) |
| Corporate Centre[14] | 3,478 | (569) | (116) |
| Eliminations | 1,377 | (101) | (107) |
| | | | |
| Total adjusted after tax profit of HUNGARIAN subsidiaries[15] | 227,527 | 184,282 | (19) |
| Total adjusted after tax profit of FOREIGN subsidiaries[16] | 191,525 | 125,986 | (34) |
| Share of foreign profit contribution | 46% | 41% | (5) |

[12] Belonging footnotes are in the Supplementary data section of the Report.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| Main components of the adjusted Statement of recognized income | 2019 | 2020 | Change % |
|---|---|---|---|
| **Consolidated after tax profit** | **412,582** | **259,636** | **(37)** |
| **Adjustments (total)** | **(6,470)** | **(50,631)** | **683** |
| Dividends and net cash transfers (after tax) | 505 | 213 | (58) |
| Goodwill/investment impairment charges (after tax) | (8,427) | 886 | (111) |
| Special tax on financial institutions (after corporate income tax) | (16,170) | (17,365) | 7 |
| Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia (after corporate income tax) | 0 | (28,262) | |
| Impact of fines imposed by the Hungarian Competition Authority (after tax) | 0 | 749 | |
| Effect of acquisitions (after tax) | 19,265 | (6,852) | (136) |
| One-off impact of regulatory changes related to FX consumer contracts in Serbia | (1,644) | 0 | (100) |
| **Consolidated adjusted after tax profit without the effect of adjustments** | **419,052** | **310,268** | **(26)** |
| **Before tax profit** | **465,973** | **351,802** | **(25)** |
| **Operating profit** | **510,045** | **537,437** | **5** |
| **Total income** | **1,077,727** | **1,169,920** | **9** |
| **Net interest income** | **706,298** | **788,079** | **12** |
| **Net fees and commissions** | **282,504** | **293,112** | **4** |
| **Other net non-interest income** | **88,926** | **88,729** | **0** |
| Foreign exchange result, net | 45,177 | 44,927 | (1) |
| Gain/loss on securities, net | 12,372 | 14,193 | 15 |
| Net other non-interest result | 31,376 | 29,610 | (6) |
| **Operating expenses** | **(567,682)** | **(632,483)** | **11** |
| Personnel expenses | (280,002) | (312,495) | 12 |
| Depreciation | (56,383) | (70,286) | 25 |
| Other expenses | (231,298) | (249,702) | 8 |
| **Total risk costs** | **(47,107)** | **(187,995)** | **299** |
| Provision for impairment on loan and placement losses | (29,474) | (158,421) | 437 |
| Other provision | (17,633) | (29,574) | 68 |
| **Total one-off items** | **3,034** | **2,360** | **(22)** |
| Gain on the repurchase of own Upper and Lower Tier2 Capital | 0 | 0 | |
| Result of the treasury share swap agreement at OTP Core | 3,034 | 2,360 | (22) |
| **Corporate taxes** | **(46,921)** | **(41,534)** | **(11)** |
| Indicators | 2019 | 2020 | %/pps |
| ROE (from accounting net earnings) | 20.3% | 10.9% | (9.4) |
| ROE (from adjusted net earnings) | 20.6% | 13.0% | (7.6) |
| ROA (from adjusted net earnings) | 2.4% | 1.4% | (1.0) |
| Operating profit margin | 2.97% | 2.47% | (0.50) |
| Total income margin | 6.28% | 5.37% | (0.91) |
| Net interest margin | 4.12% | 3.61% | (0.51) |
| Net fee and commission margin | 1.65% | 1.34% | (0.31) |
| Net other non-interest income margin | 0.52% | 0.41% | (0.11) |
| Cost-to-asset ratio | 3.31% | 2.90% | (0.41) |
| Cost/income ratio | 52.7% | 54.1% | 1.4 |
| Provision for impairment on loan and placement losses-to-average gross loans | 0.28% | 1.15% | 0.87 |
| Total risk cost-to-asset ratio | 0.27% | 0.86% | 0.59 |
| Effective tax rate | 10.1% | 11.8% | 1.7 |
| Non-interest income/total income | 34% | 33% | (1) |
| EPS base (HUF) (from unadjusted net earnings) | 1,576 | 1,004 | (36) |
| EPS diluted (HUF) (from unadjusted net earnings) | 1,575 | 1,003 | (36) |
| EPS base (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| EPS diluted (HUF) (from adjusted net earnings) | 1,602 | 1,200 | (25) |
| Comprehensive Income Statement | 2019 | 2020 | % |
| Consolidated after tax profit | 412,582 | 259,636 | (37) |
| Fair value changes of financial instruments measured at fair value through other comprehensive income | 30,224 | (4,764) | (116) |
| Fair value adjustment of derivative financial instruments designated as cash-flow hedge | 11 | (2) | (118) |
| Net investment hedge in foreign operations | (2,526) | (8,591) | 240 |
| Foreign currency translation difference | 79,440 | 68,593 | (14) |
| Change of actuarial costs (IAS 19) | (161) | 144 | (189) |
| **Net comprehensive income** | **519,570** | **315,016** | **(39)** |
| o/w Net comprehensive income attributable to equity holders | 518,802 | 315,239 | (39) |
| Net comprehensive income attributable to non-controlling interest | 768 | (223) | (129) |
| Average exchange rate[1] of the HUF | 2019 HUF | 2020 HUF | Change % |
| HUF/EUR | 325 | 351 | 7 |
| HUF/CHF | 292 | 328 | 11 |
| HUF/USD | 291 | 308 | 6 |

[1] Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

## ASSET-LIABILITY MANAGEMENT

### *Similar to previous periods OTP Group maintained a strong and safe liquidity position…*

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (ECB repo eligible security portfolio on Group level is close to EUR 1.3 billion).

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2020 the gross liquidity buffer was around EUR 8.9 billion equivalent. In addition to this, significant part of the Bulgarian excess liquidity (ca. EUR 1.2 billion) was placed locally due to the Bulgarian regulation at the end of December. Level of these buffers is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks.

The volume of issued securities increased by HUF 150 billion y-o-y, mainly because of the change of net volume of mortgage bonds issued by OTP Mortgage bank due to the issuance and cancellation of mortgage bonds in 2020. In 2020 HUF 22 billion retail and structured bond have been matured, now the volume is HUF 16 billion.

The volume of subordinated debt increased by HUF 17 billion y-o-y, mainly due to the HUF weakening against the EUR, since subordinated bond issuance did not happen in 2020.

### *…and kept its interest-rate risk exposures low*

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

### *Market Risk Exposure of OTP Group*

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 28.9 billion in total.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank.

The main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million), kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. The strategic open FX position was partially closed in 4Q 2020.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

| Main components of the adjusted balance sheet | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| **TOTAL ASSETS** | **20,121,767** | **23,335,841** | **16** |
| Cash, amounts due from Banks and balances with the National Banks | 1,841,963 | 2,432,314 | 32 |
| Placements with other banks, net of allowance for placement losses | 410,433 | 1,148,987 | 180 |
| Financial assets at fair value through profit or loss | 251,991 | 235,194 | (7) |
| Securities at fair value through other comprehensive income | 2,427,537 | 2,140,118 | (12) |
| Net customer loans | 12,247,519 | 13,528,586 | 10 |
| **Net customer loans (FX adjusted[1])** | **12,902,518** | **13,528,586** | **5** |
| Gross customer loans | 12,942,009 | 14,363,281 | 11 |
| **Gross customer loans (FX adjusted[1])** | **13,605,264** | **14,363,281** | **6** |
| o/w Retail loans | 7,930,058 | 8,309,033 | 5 |
| Retail mortgage loans (incl. home equity) | 3,671,413 | 3,818,847 | 4 |
| Retail consumer loans | 3,235,843 | 3,484,172 | 8 |
| SME loans | 1,022,802 | 1,006,014 | (2) |
| Corporate loans | 5,101,177 | 5,409,732 | 6 |
| Loans to medium and large corporates | 4,694,688 | 4,935,682 | 5 |
| Municipal loans | 406,490 | 474,049 | 17 |
| Car financing loans | 574,029 | 644,516 | 12 |
| Allowances for loan losses | (694,490) | (834,695) | 20 |
| Allowances for loan losses (FX adjusted[1]) | (702,746) | (834,695) | 19 |
| Associates and other investments | 20,822 | 52,443 | 152 |
| Securities at amortized costs | 1,995,627 | 2,625,952 | 32 |
| Tangible and intangible assets, net | 605,673 | 589,878 | (3) |
| o/w Goodwill, net | 105,298 | 101,393 | (4) |
| Tangible and other intangible assets, net | 500,375 | 488,485 | (2) |
| Other assets | 320,201 | 582,368 | 82 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **20,121,767** | **23,335,841** | **16** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss | 846,158 | 1,219,446 | 44 |
| Deposits from customers | 15,522,654 | 17,890,863 | 15 |
| **Deposits from customers (FX adjusted[1])** | **16,260,599** | **17,890,863** | **10** |
| o/w Retail deposits | 11,805,158 | 12,810,762 | 9 |
| Household deposits | 9,722,990 | 10,614,696 | 9 |
| SME deposits | 2,082,168 | 2,196,066 | 5 |
| Corporate deposits | 4,440,881 | 5,071,626 | 14 |
| Deposits to medium and large corporates | 3,637,487 | 4,218,727 | 16 |
| Municipal deposits | 803,394 | 852,899 | 6 |
| Accrued interest payable related to customer deposits | 14,560 | 8,474 | (42) |
| Liabilities from issued securities | 393,167 | 464,213 | 18 |
| o/w Retail bonds | 3,237 | 1,326 | (59) |
| Liabilities from issued securities without retail bonds | 389,930 | 462,888 | 19 |
| Other liabilities | 818,561 | 949,502 | 16 |
| Subordinated bonds and loans[2] | 249,937 | 274,704 | 10 |
| **Total shareholders' equity** | **2,291,288** | **2,537,112** | **11** |
| Indicators | 2019 | 2020 | pps |
| Loan/deposit ratio (FX adjusted[1]) | 84% | 80% | (4) |
| Net loan/(deposit + retail bond) ratio (FX adjusted[1]) | 79% | 76% | (3) |
| Stage 1 loan volume under IFRS 9 | 11,489,554 | 11,544,766 | 0 |
| Stage 1 loans under IFRS9/gross customer loans | 88.8% | 80.4% | (8.4) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.0% | 0.0 |
| Stage 2 loan volume under IFRS 9 | 685,885 | 1,998,867 | 191 |
| Stage 2 loans under IFRS9/gross customer loans | 5.3% | 13.9% | 8.6 |
| Own coverage of Stage 2 loans under IFRS 9 | 10.7% | 10.4% | (0.3) |
| Stage 3 loan volume under IFRS 9 | 766,570 | 819,647 | 7 |
| Stage 3 loans under IFRS9/gross customer loans | 5.9% | 5.7% | (0.2) |
| Own coverage of Stage 3 loans under IFRS 9 | 65.2% | 62.3% | (2.9) |
| 90+ days past due loan volume | 541,467 | 543,713 | 0 |
| 90+ days past due loans/gross customer loans | 4.2% | 3.8% | (0.4) |
| Consolidated capital adequacy - Basel3 | 2019 | 2020 | %/pps |
| Capital adequacy ratio (consolidated, IFRS) | 16.8% | 17.7% | 1.0 |
| Tier1 ratio | 14.4% | 15.4% | 1.0 |
| Common Equity Tier 1 ('CET1') capital ratio | 14.4% | 15.4% | 1.0 |
| Regulatory capital (consolidated) | 2,390,688 | 2,669,806 | 12 |
| o/w Tier1 Capital | 2,055,106 | 2,316,118 | 13 |
| o/w Common Equity Tier 1 capital | 2,055,106 | 2,316,118 | 13 |
| Tier2 Capital | 335,582 | 353,688 | 5 |
| o/w Hybrid Tier2 | 89,935 | 89,935 | 0 |
| Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk) | 14,262,197 | 15,046,888 | 6 |
| o/w RWA (Credit risk) | 12,529,878 | 13,389,536 | 7 |
| RWA (Market & Operational risk) | 1,732,319 | 1,657,352 | (4) |
| Closing exchange rate of the HUF | 2019 HUF | 2020 HUF | Change % |
| HUF/EUR | 331 | 365 | 10 |
| HUF/CHF | 304 | 337 | 11 |
| HUF/USD | 295 | 297 | 1 |

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

## OTP BANK'S HUNGARIAN CORE BUSINESS

**OTP Core Statement of recognized income:**

| Main components of the Statement of recognised income | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 190,956 | 159,303 | (17) |
| Corporate income tax | (12,668) | (16,558) | 31 |
| Pre-tax profit | 203,624 | 175,860 | (14) |
| Operating profit | 173,995 | 181,178 | 4 |
| Total income | 432,013 | 453,634 | 5 |
| Net interest income | 261,754 | 286,448 | 9 |
| Net fees and commissions | 126,911 | 130,470 | 3 |
| Other net non-interest income | 43,349 | 36,717 | (15) |
| Operating expenses | (258,018) | (272,457) | 6 |
| Total risk costs | 26,594 | (7,677) | (129) |
| Provision for impairment on loan and placement losses | 30,332 | 2,374 | (92) |
| Other provisions | (3,737) | (10,052) | 169 |
| Total one-off items | 3,034 | 2,360 | (22) |
| Revaluation result of the treasury share swap agreement | 3,034 | 2,360 | (22) |
| **Indicators** | **2019** | **2020** | **pps** |
| ROE | 11.7% | 9.3% | (2.4) |
| ROA | 2.1% | 1.5% | (0.6) |
| Operating profit margin | 1.9% | 1.7% | (0.2) |
| Total income margin | 4.82% | 4.34% | (0.48) |
| Net interest margin | 2.92% | 2.74% | (0.18) |
| Net fee and commission margin | 1.42% | 1.25% | (0.17) |
| Net other non-interest income margin | 0.48% | 0.35% | (0.13) |
| Operating costs to total assets ratio | 2.9% | 2.6% | (0.3) |
| Cost/income ratio | 59.7% | 60.1% | 0.3 |
| Provision for impairment on loan and placement losses/average gross loans[1] | (0.88%) | (0.06%) | 0.82 |
| Effective tax rate | 6.2% | 9.4% | 3.2 |

[1] Negative Provision for impairment on loan and placement losses/average gross loans ratio implies positive amount on the Provision for impairment on loan and placement losses line.

**Main components of OTP Core's Statement of financial position:**

| Main components of balance sheet closing balances | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| Total Assets | 9,641,692 | 11,492,949 | 19 |
| Net customer loans | 3,740,975 | 4,415,778 | 18 |
| **Net customer loans (FX adjusted)** | **3,809,093** | **4,415,778** | **16** |
| Gross customer loans | 3,883,412 | 4,631,974 | 19 |
| **Gross customer loans (FX adjusted)** | **3,954,333** | **4,631,974** | **17** |
| Retail loans | 2,377,561 | 2,955,288 | 24 |
| Retail mortgage loans (incl. home equity) | 1,383,805 | 1,534,013 | 11 |
| Retail consumer loans | 746,272 | 1,043,634 | 40 |
| SME loans | 247,483 | 377,642 | 53 |
| Corporate loans | 1,576,772 | 1,676,685 | 6 |
| Loans to medium and large corporates | 1,475,017 | 1,577,900 | 7 |
| Municipal loans | 101,756 | 98,785 | (3) |
| Provisions | (142,437) | (216,196) | 52 |
| **Provisions (FX adjusted)** | **(145,240)** | **(216,196)** | **49** |
| Deposits from customers + retail bonds | 6,770,161 | 8,083,488 | 19 |
| **Deposits from customers + retail bonds (FX adjusted)** | **6,861,433** | **8,083,488** | **18** |
| Retail deposits + retail bonds | 4,562,600 | 5,369,294 | 18 |
| Household deposits + retail bonds | 3,609,460 | 4,231,931 | 17 |
| *o/w: Retail bonds* | 3,237 | 1,326 | (59) |
| SME deposits | 953,140 | 1,137,363 | 19 |
| Corporate deposits | 2,298,834 | 2,714,194 | 18 |
| Deposits to medium and large corporates | 1,658,191 | 1,961,483 | 18 |
| Municipal deposits | 640,643 | 752,711 | 17 |
| Liabilities to credit institutions | 445,301 | 858,230 | 93 |
| Issued securities without retail bonds | 436,340 | 513,860 | 18 |
| Total shareholders' equity | 1,720,872 | 1,766,639 | 3 |
| Loan Quality | 2019 | 2020 | %/pps |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 3,550,841 | 3,606,490 | 2 |
| Stage 1 loans under IFRS 9/gross customer loans | 91.4% | 77.9% | (13.5) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.8% | 0.8% | 0.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 163,954 | 833,163 | 408 |
| Stage 2 loans under IFRS 9/gross customer loans | 4.2% | 18.0% | 13.8 |
| Own coverage of Stage 2 loans under IFRS 9 | 12.4% | 10.1% | (2.3) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 168,618 | 192,321 | 14 |
| Stage 3 loans under IFRS 9/gross customer loans | 4.3% | 4.2% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 55.4% | 54.5% | (0.9) |
| 90+ days past due loan volume (in HUF million) | 123,895 | 144,816 | 17 |
| 90+ days past due loans/gross customer loans | 3.2% | 3.1% | (0.1) |
| Market Share | 2019 | 2020 | pps |
| Loans | 22.2% | 23.0% | 0.8 |
| Deposits | 27.7% | 25.4% | (2.3) |
| Total Assets | 28.8% | 25.7% | (3.1) |
| Performance Indicators | 2019 | 2020 | pps |
| Net loans to (deposits + retail bonds) (FX adjusted) | 56% | 55% | (1) |
| Leverage (closing Shareholder's Equity/Total Assets) | 17.8% | 15.4% | (2.5) |
| Leverage (closing Total Assets/Shareholder's Equity) | 5.6x | 6.5x | 0.9x |
| Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS) | 27.6% | 26.7% | (0.8) |
| Common Equity Tier 1 ratio (OTP Bank, non-consolidated, Basel3, IFRS) | 23.6% | 22.5% | (1.0) |

- ***In 2020 as a whole, OTP Core's adjusted profit amounted to HUF 159.3 billion, marking a y-o-y decline of 17%, owing to higher risk costs***
- ***All components of the total income margin declined in 2020 (-48 bps y-o-y)***
- ***Whereas the underlying loan quality trends remained favourable, the rise in the ratio of Stage 2 loans stemmed from the Bank's more conservative customer assessment. The ratio of Stage 3 loans even decreased y-o-y***
- ***Performing loans grew dynamically (+19% y-o-y FX-adjusted), mostly driven by the subsidized baby loans and FGS Go! loans. Deposits rose by 18% y-o-y***

*Starting from 1Q 2020, OTP eBIZ Ltd became part of OTP Core. It reported HUF 0.4 billion loss in full-year 2019.*

*Starting from 1Q 2020, the accounting method of the termination of swap contracts has changed. Upon the termination of swap deals, until the end of 2019, the FVA booked within other income was shifted to the net interest income line. From 1Q 2020 this shift does not occur. In the case of OTP Core, the intra-group swaps, typically with DSK Bank, are being terminated. In 2019 the other income of OTP Core was boosted, whereas the net interest income was reduced by the above accounting method.*

### *P&L developments*

In 2020, **OTP Core's** adjusted after-tax profit amounted to HUF 159.3 billion, 17% less than a year earlier. The drop owed a lot to higher total risk costs, while operating profit improved by 4%, largely benefiting from a continued dynamic loan growth.

Within full-year total income, net interest income grew at the strongest rate, 9%, thanks to a dynamic organic growth in loans – this was somewhat offset by the 18 bps y-o-y erosion of net interest margin. The latter was reasoned mainly by lower lending interest rate levels, owing to the strong competition. In the fourth quarter, net interest income benefited a total HUF 0.5 billion from items that arose in 4Q when, under the modification of its accounting policy, the Bank re-classified retail loans with subsidized interest rates from loans at amortized cost to loans measures at fair value through profit or loss[13].

Short-term interbank rates, which are the reference rates for variable rate loans, rose overall in 2020: the 3M BUBOR's closing value rose to 75 bps by end-2020, from 16 bps at the end of 2019, while its annual average rate rose by 50 bps, to 69 bps.

The annual net fees and commissions grew by HUF 3.6 billion, or 3% y-o-y. The main reason for the modest growth was the pandemic-induced decline in economic activity and transaction volumes: reversing a 15% y-o-y growth in 1Q, there was 7% decline in 2Q, 3% drop in 3Q from the previous year, but the growth rate returned to positive territory in 4Q, even without a one-off item booked in 4Q 2020: the shifting of subsidized retail loans to loans at fair value had HUF 2.7 billion positive effect[14] on net fees. Among the components of the annual fee income, deposits, transactions- and card-related fee revenues rose modestly, while commissions from securities dropped, particularly those relating to the distribution of investment funds[15] and retail government bonds. The latter was partly explained by base effect: thanks to the outstanding sales performance, the volume of the *MÁP Plus* retail government bonds expanded significantly after its launch in June 2019. Secondly, revenues realized in 2020 declined in relation to the distribution fee structure, largely as average retail government bond volumes shrank q-o-q in the second quarter of 2020, bringing down retail government bond distribution fee revenues in 2Q.

Full-year other net non-interest income (without one-offs) dropped by 15% y-o-y, or HUF 6.6 billion, dragged down by lower gain on securities in 1Q 2020, and by the fact that recoveries realized on claims bought by OTP Factoring from non-Group parties were presented under risk costs, rather than other income, starting from 2020. In 2020, nearly HUF 3.8 billion revaluation result appeared within other income in the wake of the revision of Visa Inc.'s class C shares' accounting classification.

In 2020, operating expenses grew by 6%, or HUF 14.4 billion, chiefly because of higher depreciation, and to a lesser extent due to administrative expenses, including hardware and office equipment costs, as well as supervisory fees (the latter jumped by HUF 3 billion y-o-y, to HUF 13.3 billion). In 2020 as a whole, the extra cost of protection against the pandemic and OTP Bank's donations entailed HUF 4 billion extra expenses. As a favourable development, personnel expenses slightly dropped y-o-y, in part because of lower bonus payments and partly as employers' contributions were reduced by a further two percentage points from July 2020. The average number of employees grew by 5% y-o-y.

In 2020, total risk costs amounted to -HUF 7.7 billion, as opposed to +HUF 26.6 billion in 2019. The main reason for the higher risk costs was that the pandemic-induced change in the macroeconomic environment was incorporated in the calculation of impairments. As a result, the IFRS 9 impairment model parameters were revised several times in the course of 2020, entailing higher risk costs. Throughout 2020, the Bank steadily monitored changes to customers' financial position and behaviour even during the loan repayment moratorium, and sought to identify debtors with increased risk profile. As a result, certain exposures – some of them under the debt repayment moratorium – were reclassified as Stage 2 during 2020, which also added to risk costs. These effects were mitigated by the positive risk costs booked in relation to the portfolio managed by OTP Factoring, the Hungarian work-out company, largely relating to claims toward households. This included the continued recoveries realized on these claims, whereas in 4Q 2020 another positive item

[13] The modification of the accounting policy was applied retroactively: the P&L items that concerned the previous years were accounted against shareholders' equity, while the reporting year's items were booked in the P&L, in one lump sum in 4Q 2020.

[14] Because of the reclassification of loans, two major items appeared among net fees: first, the commissions due in 2020, which would have been amortized over the whole maturity according to the previous method, were recognized in the P&L in one lump sum in December (HUF 1.3 billion). Second, the fees received after the end-of-the-year volume of baby loans were recorded amongst the net fees and commissions (HUF 1.4 billion), while under the previous accounting policy, this amount would have been recognized in the outstanding baby loan volumes at amortized cost.

[15] In 2Q 2020, because of technical reasons, lower fee income was booked from the sales of investment funds. At OTP Core, much of this type of income is related to the funds managed by the Group's Hungarian fund managers, and is presented at these asset management companies as commission expenditure, thus at Group level, this item did not affect the q-o-q dynamics of net fees and commissions.

emerged as a result of the revision of the expected future recoveries from OTP Factoring's claims; the upward revaluation of such claims also resulted in a growth in net loan volumes classified as Stage 3 (while the stock of impairments in the balance sheet did not change).

Regarding loan quality trends, new defaults did not seem to have jumped: while the volume of more than 90 days past due (DPD90+) loans grew by HUF 4 billion in 1Q 2020, these volumes contracted by HUF 3 billion each in 2Q, 3Q, and 4Q (FX-adjusted, without sales/write-offs, adjusted for the revaluation of OTP Factoring's claims in 4Q). This led to a HUF 5 billion decrease in full-year 2020, the same as the 2019 figure. In the whole of 2020, HUF 10 billion non-performing loans were sold/written off (FX-adjusted).

Predominantly as a result of the abovementioned reclassifications, the ratio of Stage 2 loans grew to 18% by the end of December, up from 4.2% at the end of 2019, and from 11.7% in the previous quarter. Even though those reclassifications into Stage 2 reduced the own coverage of both Stage 1 and Stage 2 loans in 2020, but the total Stage 1+2 portfolio's own provision coverage nearly doubled in 2020 (2019: 1.3%, 2020: 2.5%).

### *Balance sheet trends*

In 2020, the balance sheet total expanded by 19% (+HUF 1.851 billion). A larger part of that growth came from customer deposits (+HUF 1.315 billion), and a smaller increase was caused by a y-o-y growth in liabilities to credit institutions (+HUF 413 billion). One reason for the latter was that the repo volumes, previously presented on the medium and large corporate deposits line, picked up from zero at the end of 2019, and was moved to this line, starting from 2020.

Gross loans and performing (Stage 1+2) loans grew at similar rates, by 17% in 2020 (FX-adjusted), while performing loans surged 21% in 2019.

OTP Core's performing loans rose by 5% q-o-q in 1Q, by 2% in 2Q, by 5% in 3Q, and by 4% 4Q (all FX-adjusted) – that is, the pandemic and the related restrictions somewhat decelerated loan growth in 2Q, but it could climb back to average pre-pandemic quarterly levels in the second half-year. This was mostly the result of the effective economy protection measures, particularly of the government's and the National Bank of Hungary's subsidized lending programs: in full-year 2020, growth in subsidized loans (baby loans, FGS Go!, CSOK Housing Subsidy for Families scheme) contributed 84% of the total FX-adjusted increase in performing loans. Meanwhile, the dynamic lending activity helped OTP Bank preserve, or in some cases even improve, its market share in the main loan categories.

In addition, starting from the second quarter of 2020, existing loan volumes also benefited from the fact that, in the case of loans that participated in the debt repayment moratorium, the principal was not amortized, and the deferred interest was presented as part of the gross loan volume (however, the regulation bans charging interest on the unpaid interest).

Regarding the individual product categories, the subsidized baby loan was the engine of consumer loan growth: in 2020, the contractual amount of baby loans at OTP Bank hit HUF 257 billion, thus the Bank's market share reached 41.7% in 2020. In line with expectations, the quarterly contractual amount of baby loans has been following a slightly declining path since the product was launched in July 2019, owing to the features of the structure (1Q 2020: HUF 72 billion, 2Q: HUF 59 billion, 3Q: HUF 65 billion, 4Q: HUF 61 billion).

Market-based cash loan disbursements fell by 46% overall in 2020. The declining disbursements from 2Q 2020 can be attributed to the introduction of a cap on interest rates on newly disbursed, non-mortgage-backed consumer loans, effective from 19 March 2020 until end-2020, as well as to the related tightening in lending standards. OTP Bank's markets share calculated from cash loan placements was 34.8% in full-year 2020, down from 38.9% in 2019. The stock of performing cash loans expanded by 15% y-o-y, partly supported by the declining amortization due to the repayment moratorium.

As for mortgage loans, the steady growth in performing volumes continued, bringing the y-o-y dynamics to 11%. Within that, housing loans, which make up 85% of the overall mortgage stock, expanded by 14% y-o-y, while home equity loans, which were less popular in recent years, shrank further (-6% y-o-y).

In full year 2020, applications for mortgage loans subsided 7% y-o-y. However, the disbursed amount grew by 15% y-o-y in 2020, owing to the surge in subsidized loan placement.

OTP Bank's market share in new mortgage loan contractual amounts hit 32.0% in 2020 (up from 31.4% in 2019). The improvement owed mainly to the CSOK family housing benefit scheme, which was expanded in July 2019, thus bolstering demand for subsidized loans: in the subsidized housing loan segment, OTP's market share has been traditionally strong.

Regarding corporate lending activity, performing corporate loans reversed the strong growth seen in recent years and in the first quarter of 2020 (+5% q-o-q): they declined by 1% q-o-q in 2Q 2020, then picked up that much in 3Q, and grew 3% q-o-q in 4Q. This brought the annual growth rate to 7% in 2020.

The outstanding expansion in loans to micro and small enterprises continued: their performing loan volumes grew by 55% y-o-y (FX-adjusted), marking an impressive acceleration from the 14% growth in 2019. This owed a lot to the National Bank of Hungary's *Funding for Growth Go!* scheme, which has been available at OTP Bank since the end of April 2020. By the end of December 2020, their contractual amount reached HUF 362 billion, thus OTP Bank's market share has surpassed 25% since the programme started.

The share of investments in subsidiaries, held on OTP Core's asset side, within the balance sheet total rose by an average of 1 pp y-o-y in 2020, to 13.1%, fundamentally driving the growing share of non-interest-bearing assets in the balance sheet.

OTP Core's customer deposits increased by 18% y-o-y (FX-adjusted). Household deposits remained on a dynamic growth path (+3% q-o-q in 1Q 2020, +6% in 2Q, +2% in 3Q, and +5% in 4Q). The net loan / (deposit + retail bond) ratio stood at 55% at the end of 2020, which is consistent with 1 pp y-o-y decline.

OTP Bank's capital adequacy ratio (CAR) stood at 26.7% at the end of 2020, while the CET1 = Tier 1 ratio was at 22.5%. The Bank's regulatory capital at the end of the reporting period did not include the eligible profit made in the reporting period.

## OTP FUND MANAGEMENT (HUNGARY)

**Changes in assets under management and financial performance of OTP Fund Management:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 15,104 | 9,747 | (35) |
| Income tax | (1,438) | (915) | (36) |
| Profit before income tax | 16,542 | 10,662 | (36) |
| Operating profit | 16,542 | 10,662 | (36) |
| Total income | 20,433 | 14,453 | (29) |
| Net interest income | 0 | 0 | 0 |
| Net fees and commissions | 19,800 | 14,154 | (29) |
| Other net non-interest income | 633 | 299 | (53) |
| Operating expenses | (3,891) | (3,791) | (3) |
| Other provision | 0 | (1) | 0 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 33,688 | 33,210 | (1) |
| Total shareholders' equity | 24,828 | 16,425 | (34) |
| **Asset under management** | **2019 HUF billion** | **2020 HUF billion** | **%** |
| **Assets under management, total (w/o duplicates)[1]** | **1,119** | **1,201** | **7** |
| Volume of investment funds (closing, w/o duplicates) | 793 | 828 | 4 |
| Volume of managed assets (closing) | 326 | 373 | 14 |
| **Volume of investment funds (closing, with duplicates)[2]** | **1,073** | **1,183** | **10** |
| absolute return fund | 434 | 374 | (14) |
| bond | 315 | 376 | 19 |
| security | 188 | 248 | 32 |
| mixed | 73 | 133 | 82 |
| commodity market | 30 | 28 | (7) |
| guaranteed | 28 | 20 | (29) |
| money market | 6 | 5 | (17) |
| derivative | 0 | 0 | 0 |
| other | 0 | 0 | 0 |

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.

In 2020, **OTP Fund Management** generated HUF 9.7 billion profit, 35% less than in the previous year.

The y-o-y drop in full-year net fees and commissions was caused by a base effect: it largely reflected the effect of the income from an outstanding success fee at the end of 2019.

Unlike in 2019, when the success fee was mostly related to the OTP Supra Derivative Fund's performance, in 2020 it was the OTP Treasures of the Earth Derivative Fund, and a number of other derivative and absolute return funds' performance that determined it. The OTP Treasures of the Earth Derivative Fund absolute return fund's yield exceeded 49% in 2020, and the success fee is 20% of the positive difference between the fund's yield and the ZMAX benchmark index.

The main reason for the y-o-y drop in the annual other income was the negative fair value adjustment of own investment units, recorded in 1Q 2020.

Operating expenses dropped by 3% y-o-y in 2020.

In Hungary, the market environment for investment funds was rather hectic; following the lows hit in the first quarter, the situation consolidated, and the turbulent changes reshuffled investment funds' structure as well.

Following its extraordinary performance in 2019, Hungary's largest absolute return fund, OTP Supra Derivative Fund made negative yield in 2020, but it worked off some of the losses after hitting its lowest in March. Absolute return funds, as well as technology and climate change related funds were particularly popular in 2020.

The positive capital flow and yields helped OTP Fund Management increase the total wealth managed in y-o-y terms (by +4%).

Of the funds managed, demand for bond funds remained steady; their volume expanded by nearly 20% y-o-y. Following the slump in stock prices in March, demand for equity funds has increased, thus their volumes grew by 32% y-o-y, on account of capital inflow and favourable yield developments.

The Company's market share rose by 1 pp y-o-y, to 24.6% by the end of December 2020, thus preserving its top position in the domestic securities funds market.

## MERKANTIL GROUP (HUNGARY)

**Performance of Merkantil Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 7,115 | 7,661 | 8 |
| Income tax | (632) | (956) | 51 |
| Profit before income tax | 7,747 | 8,617 | 11 |
| Operating profit | 7,372 | 10,280 | 39 |
| Total income | 14,369 | 21,283 | 48 |
| Net interest income | 14,013 | 17,688 | 26 |
| Net fees and commissions | (104) | 40 | (138) |
| Other net non-interest income | 461 | 3,555 | 671 |
| Operating expenses | (6,997) | (11,004) | 57 |
| Total provisions | 375 | (1,663) | (543) |
| Provision for impairment on loan and placement losses | 143 | (1,491) | |
| Other provision | 232 | (171) | (174) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 491,399 | 667,120 | 36 |
| Gross customer loans | 366,064 | 416,987 | 14 |
| Gross customer loans (FX-adjusted) | 368,689 | 416,987 | 13 |
| Retail loans | 30,528 | 57,018 | 87 |
| Corporate loans | 128,707 | 119,725 | (7) |
| Car financing loans | 209,454 | 240,244 | 15 |
| Allowances for possible loan losses | (10,072) | (12,874) | 28 |
| Allowances for possible loan losses (FX-adjusted) | (10,143) | (12,874) | 27 |
| Deposits from customers | 10,414 | 9,344 | (10) |
| Deposits from customer (FX-adjusted) | 10,414 | 9,344 | (10) |
| Retail deposits | 8,051 | 6,071 | (25) |
| Corporate deposits | 2,364 | 3,273 | 38 |
| Liabilities to credit institutions | 420,076 | 584,944 | 39 |
| Total shareholders' equity | 44,441 | 52,553 | 18 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 345,339 | 343,668 | 0 |
| Stage 1 loans under IFRS 9/gross customer loans | 94.3% | 82.4% | (11.9) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.2% | (0.1) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 7,459 | 58,592 | 686 |
| Stage 2 loans under IFRS 9/gross customer loans | 2.0% | 14.1% | 12.0 |
| Own coverage of Stage 2 loans under IFRS 9 | 4.7% | 3.8% | (0.8) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 13,267 | 14,727 | 11 |
| Stage 3 loans under IFRS 9/gross customer loans | 3.6% | 3.5% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 63.4% | 66.5% | 3.1 |
| Provision for impairment on loan and placement losses/average gross loans | (0.04%) | 0.38% | 0.42 |
| 90+ days past due loan volume (in HUF million) | 7,364 | 8,971 | 22 |
| 90+ days past due loans/gross customer loans | 2.0% | 2.2% | 0.1 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.6% | 1.3% | (0.3) |
| ROE | 17.4% | 15.7% | (1.6) |
| Total income margin | 3.20% | 3.58% | 0.37 |
| Net interest margin | 3.12% | 2.97% | (0.15) |
| Cost/income ratio | 48.7% | 51.7% | 3.0 |

*The column for 2020 in the table display the partially consolidated performance of Merkantil Group, including Merkantil Bank Ltd., Merkantil Bérlet Ltd., NIMO 2002 Ltd., SPLC-P Ingatlanfejlesztő, Ingatlanhasznosító Ltd., SPLC Vagyonkezelő Ltd., and OTP Ingatlanlízing Ltd. In the 2019 base period, the standalone performance of Merkantil Bank Ltd. was presented.*

In 2020 **Merkantil Group** generated HUF 7.7 billion adjusted after-tax profit, of which HUF 6.7 billion was Merkantil Bank's contribution, which therefore showed a decrease y-o-y. In 2020, the Group's ROE stood at 15.7%.

The main reason for the y-o-y rise in the income and expense lines is that, starting from 1Q 2020, the figures reflect the performance of the entire Hungarian leasing group. Merkantil Bank's individual net interest income rose by 4% y-o-y, and its operating expenses dropped by 5%. Merkantil Group's total risk cost amounted to -HUF 1.7 billion in 2020.

The stock of DPD90+ loans did not change over 2020 (FX-adjusted, without sales/write-offs).

The ratio of Stage 2 loans grew by 4.6 pps q-o-q. The own provision coverage of Stage 2 loans stood at 3.8% (-0.7 pp q-o-q). Stage 3 loans made up 3.5% of gross loan volumes (-0.7 pp q-o-q), and their own provision coverage was 66.5% (+10.4 pps q-o-q).

Merkantil Group's FX-adjusted performing (Stage 1+2) loans increased by 12% y-o-y. Merkantil Bank's individual performing loan stock grew by 4% y-o-y. The full-year dynamics was positively affected by the National Bank of Hungary's *FGS Go!* programme, made available in April 2020. By the end of December 2020, contractual amount reached HUF 41 billion at Merkantil Bank. Merkantil Bank retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

## IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

## DSK GROUP (BULGARIA)

**Performance of DSK Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 67,879 | 40,957 | (40) |
| Income tax | (7,199) | (3,707) | (49) |
| Profit before income tax | 75,078 | 44,665 | (41) |
| Operating profit | 83,495 | 89,775 | 8 |
| Total income | 155,567 | 166,668 | 7 |
| Net interest income | 109,030 | 111,239 | 2 |
| Net fees and commissions | 42,019 | 45,453 | 8 |
| Other net non-interest income | 4,517 | 9,975 | 121 |
| Operating expenses | (72,071) | (76,893) | 7 |
| Total provisions | (8,418) | (45,110) | 436 |
| Provision for impairment on loan and placement losses | (5,216) | (44,875) | 760 |
| Other provision | (3,201) | (235) | (93) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 3,669,766 | 4,283,625 | 17 |
| Gross customer loans | 2,350,694 | 2,634,870 | 12 |
| Gross customer loans (FX-adjusted) | 2,596,088 | 2,634,870 | 1 |
| Retail loans | 1,597,408 | 1,614,561 | 1 |
| Corporate loans | 953,025 | 938,117 | (2) |
| Car financing loans | 45,655 | 82,191 | 80 |
| Allowances for possible loan losses | (135,640) | (185,829) | 37 |
| Allowances for possible loan losses (FX-adjusted) | (149,830) | (185,829) | 24 |
| Deposits from customers | 3,015,805 | 3,587,364 | 19 |
| Deposits from customers (FX-adjusted) | 3,315,475 | 3,587,364 | 8 |
| Retail deposits | 2,780,781 | 3,012,074 | 8 |
| Corporate deposits | 534,694 | 575,290 | 8 |
| Liabilities to credit institutions | 59,867 | 17,010 | (72) |
| Total shareholders' equity | 528,759 | 620,379 | 17 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 2,081,790 | 2,142,644 | 3 |
| Stage 1 loans under IFRS 9/gross customer loans | 88.6% | 81.3% | (7.3) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.0% | (0.1) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 99,917 | 297,292 | 198 |
| Stage 2 loans under IFRS 9/gross customer loans | 4.3% | 11.3% | 7.0 |
| Own coverage of Stage 2 loans under IFRS 9 | 8.5% | 12.6% | 4.1 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 168,986 | 194,934 | 15 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.2% | 7.4% | 0.2 |
| Own coverage of Stage 3 loans under IFRS 9 | 62.0% | 65.6% | 3.6 |
| Provision for impairment on loan and placement losses/average gross loans | 0.24% | 1.79% | 1.55 |
| 90+ days past due loan volume (in HUF million) | 108,600 | 126,242 | 16 |
| 90+ days past due loans/gross customer loans | 4.6% | 4.8% | 0.2 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.9% | 1.0% | (0.9) |
| ROE | 13.7% | 7.0% | (6.7) |
| Total income margin | 4.28% | 4.13% | (0.15) |
| Net interest margin | 3.00% | 2.75% | (0.25) |
| Cost/income ratio | 46.3% | 46.1% | (0.2) |
| Net loans to deposits (FX-adjusted) | 74% | 68% | (6) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/BGN (closing) | 169.0 | 186.7 | 10 |
| HUF/BGN (average) | 166.3 | 179.5 | 8 |

- ***The Bulgarian banking group generated HUF 41.0 billion adjusted profit, 40% less than a year earlier, owing to the higher provisions.***
- ***The integration of Expressbank was successfully completed at the beginning of May 2020. The number of branches dropped by 24%, and the headcount fell by 9% y-o-y.***

*The P&L of the Bulgarian operation was adjusted for the one-off items directly related to the Expressbank acquisition; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

In 2020 **DSK Group** generated HUF 41.0 billion after-tax profit, 40% less than in 2019.

The integration of Expressbank was successfully completed at the beginning of May 2020. Certain cost synergies had already been extracted during the integration process, and this has continued since then. The number of branches in Bulgaria fell by 143 units (-30%) since the end of 1Q 2019, when Expressbank became part of the Group. The number of employees dropped by 566 (-9%) in 2020. Full-year operating expenses declined by 1% y-o-y in local currency.

The Bulgarian operation's full-year operating profit grew by 8% in HUF (but dropped 1% in BGN terms). Within total income, cumulated net interest income declined by 6% in BGN terms, as a result of the 24 bps erosion in net interest margin. The full-year net interest income was also negatively affected by a regulatory change that banned charging penalty interest on late payment during the emergency, from 13 March to 14 May 2020.

In 2020, net fees and commissions stagnated y-o-y in BGN, predominantly in connection with the drop in economic and business activity from the second quarter.

In 2020, other net non-interest income surged by 121% y-o-y, chiefly because of higher swap result and foreign exchange gains. Another reason was that, following the revision of Visa Inc.'s class C shares' accounting classification, the equivalent of HUF 0.7 billion positive amount boosted other income in 2Q 2020.

The Stage 2 ratio has significantly increased over the past 12 months (+7 pps y-o-y), predominantly because the Bank reclassified the loans most exposed to the pandemic, first corporate and then retail loans were reclassified from Stage 1 (performing) category under IFRS 9 into Stage 2 (increased risk).

The ratio of Stage 3 loans increased by 0.2 pp over the previous year. The own provision coverage of Stage 3 loans rose in y-o-y terms.

In 2020, HUF 45.1 billion total risk costs weighed on profit. The reason for the y-o-y higher figure was the extra provisioning owing to the pandemic. The 12-month credit risk cost ratio was 1.79% of average gross loan volumes.

Overall, loan quality indicators have improved: the more than 90 days past due (DPD90+) loans grew by HUF 22 billion (FX-adjusted, without sales/write-offs) in full year 2020 (of which 4Q: +HUF 5 billion). During 2019 this volume increased by HUF 11 billion without the technical effect of the acquisition of Expressbank. In 2020 as a whole HUF 13 billion worth of problem loans were sold/written off.

Regarding the lending activity, performing (Stage 1+2) loans rose by an FX-adjusted 1% in y-o-y terms. In 2020, car financing loans grew by 80% y-o-y, partly because of the reclassification of some leasing exposures from corporate loans onto this line.

The Bulgarian operation's liquidity position remained stable. The FX-adjusted net loan/deposit ratio stood at 68% at the end of December. At the end of December 2020, the capital adequacy ratio of DSK Bank, calculated according to local rules, stood at 21.4%. In the course of 2020, DSK Bank did not pay dividend to OTP Bank from its 2019 profit, in accordance with the Bulgarian National Bank's recommendation.

## OTP BANK CROATIA

**Performance of OTP Bank Croatia:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 30,719 | 14,830 | (52) |
| Income tax | (6,681) | (2,771) | (59) |
| Profit before income tax | 37,400 | 17,600 | (53) |
| Operating profit | 42,925 | 40,329 | (6) |
| Total income | 85,069 | 84,907 | 0 |
| Net interest income | 56,812 | 58,199 | 2 |
| Net fees and commissions | 17,032 | 16,093 | (6) |
| Other net non-interest income | 11,225 | 10,615 | (5) |
| Operating expenses | (42,144) | (44,578) | 6 |
| Total provisions | (5,525) | (22,728) | 311 |
| Provision for impairment on loan and placement losses | (2,835) | (19,491) | 588 |
| Other provision | (2,691) | (3,238) | 20 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 2,098,951 | 2,325,669 | 11 |
| Gross customer loans | 1,370,057 | 1,642,170 | 20 |
| Gross customer loans (FX-adjusted) | 1,503,015 | 1,642,170 | 9 |
| Retail loans | 812,239 | 853,245 | 5 |
| Corporate loans | 617,623 | 722,320 | 17 |
| Car financing loans | 73,152 | 66,606 | (9) |
| Allowances for possible loan losses | (68,701) | (100,920) | 47 |
| Allowances for possible loan losses (FX-adjusted) | (75,254) | (100,920) | 34 |
| Deposits from customers | 1,478,223 | 1,634,652 | 11 |
| Deposits from customers (FX-adjusted) | 1,613,110 | 1,634,652 | 1 |
| Retail deposits | 1,213,410 | 1,231,516 | 1 |
| Corporate deposits | 399,700 | 403,136 | 1 |
| Liabilities to credit institutions | 253,176 | 287,647 | 14 |
| Total shareholders' equity | 292,649 | 328,165 | 12 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 1,140,495 | 1,257,492 | 10 |
| Stage 1 loans under IFRS 9/gross customer loans | 83.2% | 76.6% | (6.7) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.8% | 0.8% | 0.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 143,843 | 241,962 | 68 |
| Stage 2 loans under IFRS 9/gross customer loans | 10.5% | 14.7% | 4.2 |
| Own coverage of Stage 2 loans under IFRS 9 | 3.5% | 5.7% | 2.2 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 85,719 | 142,716 | 66 |
| Stage 3 loans under IFRS 9/gross customer loans | 6.3% | 8.7% | 2.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 63.6% | 53.9% | (9.6) |
| Provision for impairment on loan and placement losses/average gross loans | 0.22% | 1.27% | 1.05 |
| 90+ days past due loan volume (in HUF million) | 51,012 | 68,712 | 35 |
| 90+ days past due loans/gross customer loans | 3.7% | 4.2% | 0.5 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.6% | 0.7% | (0.9) |
| ROE | 10.9% | 4.7% | (6.2) |
| Total income margin | 4.35% | 3.93% | (0.42) |
| Net interest margin | 2.91% | 2.69% | (0.21) |
| Cost/income ratio | 49.5% | 52.5% | 3.0 |
| Net loans to deposits (FX-adjusted) | 89% | 94% | 6 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/HRK (closing) | 44.4 | 48.4 | 9 |
| HUF/HRK (average) | 43.9 | 46.6 | 6 |

- ***Full-year 2020 profit neared HUF 15 billion (-52% y-o-y), with 6% lower operating profit and a jump in risk costs***
- ***Net interest income rose by 2% y-o-y; performing (Stage 1+2) loans increased in FX-adjusted terms and interest margin shrank 21 bps in 2020***
- ***As to loan quality, the Stage 3 ratio upped 2.4 pps, to 8.7% y-o-y***

In 2020, the **Croatian operation** generated HUF 14.8 billion after-tax profit, 52% less than a year earlier, owing to a jump in risk costs and a decline in operating profit.

Following a halt in lending activity in the second quarter, disbursement dynamics have been steadily improving. In 4Q 2020, mortgage loan disbursements grew by 72% q-o-q; this brought the full-year

disbursement growth to 8% y-o-y. Even though cash loans rebounded after the first wave of the coronavirus pandemic, the full-year disbursed volume was 25% short of its 2019 level.

Performing (Stage 1+2) loans grew by an FX-adjusted 6% y-o-y

Beside loan volume growth, and the Croatian bank's liquidity position remained stable. Deposit volumes rose by an FX-adjusted 1% y-o-y, thus the net loan/deposit ratio went up by 6 pps y-o-y, to 94%, in FX-adjusted terms.

In 2020, operating profit was 6% (in local currency terms 11%) less than a year earlier. Core banking income dropped in y-o-y terms, as a combined effect of the 21 bps erosion in net interest margin (2.69%), and the pandemic's effect on business and economic activity. Net fees and commissions were dragged down by the lost revenue from tourism-related activities. Despite the HUF 1.5 billion one-off revaluation result on Visa Inc.'s class C shares booked in 2Q 2020, other non-interest income was 5% short of the base period.

In 2020, operating expenses surged by 6% y-o-y in HUF, and were stable in local currency. The 3 pps rise in full-year cost/income ratio brought the y-o-y figure to 52.5%.

In 2020, nearly HUF 23 billion risk cost weighed on profit, which was four times the figure posted in 2019. A smaller part of that was recorded in 1Q, in view of the possible effects of the pandemic, while loan loss provision in 3Q was even higher than in 1Q, owing to the revision of the IFRS 9 impairment model parameters. In 4Q 2020 under the instruction of the local regulator exposures with longer than 9 months moratorium participation in total shall be classified as Stage 3.

The stock of more than 90 days past due loans grew by HUF 15 billion (FX-adjusted, without sales/write-offs) in 2020. This brought the DPD90+ ratio to 4.2% by the end of December (+0.5 pp y-o-y). The Stage 3 ratio rose by more than 2 pps in y-o-y terms (4Q: 8.7%), as the Bank reclassified the exposures with longer than 9 months moratorium participation to Stage 3 (forborne) category, in accordance with local regulation.

In March and April 2020, the Croatian National Bank issued a set of recommendations, based on the EBA's guidance, on the basis of which commercial banks developed rules for their own loan repayment moratorium. On 1 October 2020, a new moratorium period was opened; the deadline for receiving applications is 31 March 2021.

## OTP BANK SERBIA

**Performance of OTP Bank Serbia:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 10,430 | 7,298 | (30) |
| Income tax | 459 | (1,157) | (352) |
| Profit before income tax | 9,970 | 8,455 | (15) |
| Operating profit | 13,143 | 35,898 | 173 |
| Total income | 43,276 | 79,001 | 83 |
| Net interest income | 30,809 | 59,514 | 93 |
| Net fees and commissions | 9,506 | 14,766 | 55 |
| Other net non-interest income | 2,962 | 4,721 | 59 |
| Operating expenses | (30,133) | (43,102) | 43 |
| Total provisions | (3,173) | (27,443) | 765 |
| Provision for impairment on loan and placement losses | (1,634) | (22,170) | |
| Other provision | (1,539) | (5,273) | 243 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 1,659,483 | 2,052,332 | 24 |
| Gross customer loans | 1,199,580 | 1,539,738 | 28 |
| Gross customer loans (FX-adjusted) | 1,325,734 | 1,539,738 | 16 |
| Retail loans | 633,684 | 747,715 | 18 |
| Corporate loans | 642,532 | 737,969 | 15 |
| Car financing loans | 49,518 | 54,054 | 9 |
| Allowances for possible loan losses | (18,904) | (43,597) | 131 |
| Allowances for possible loan losses (FX-adjusted) | (20,907) | (43,597) | 109 |
| Deposits from customers | 910,623 | 1,147,712 | 26 |
| Deposits from customers (FX-adjusted) | 1,003,698 | 1,147,712 | 14 |
| Retail deposits | 604,453 | 676,599 | 12 |
| Corporate deposits | 399,245 | 471,112 | 18 |
| Liabilities to credit institutions | 436,449 | 548,354 | 26 |
| Subordinated debt | 24,460 | 31,033 | 27 |
| Total shareholders' equity | 249,461 | 273,046 | 9 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 1,151,763 | 1,367,313 | 19 |
| Stage 1 loans under IFRS 9/gross customer loans | 96.0% | 88.8% | (7.2) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.8% | 0.4 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 21,447 | 132,427 | 517 |
| Stage 2 loans under IFRS 9/gross customer loans | 1.8% | 8.6% | 6.8 |
| Own coverage of Stage 2 loans under IFRS 9 | 5.8% | 8.5% | 2.7 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 26,370 | 39,998 | 52 |
| Stage 3 loans under IFRS 9/gross customer loans | 2.2% | 2.6% | 0.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 50.0% | 53.6% | 3.6 |
| Provision for impairment on loan and placement losses/average gross loans | 0.25% | 1.62% | 1.37 |
| 90+ days past due loan volume (in HUF million) | 20,702 | 22,697 | 10 |
| 90+ days past due loans/gross customer loans | 1.7% | 1.5% | (0.2) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.1% | 0.4% | (0.7) |
| ROE | 7.6% | 2.7% | (4.9) |
| Total income margin | 4.70% | 4.25% | (0.45) |
| Net interest margin | 3.35% | 3.20% | (0.15) |
| Cost/income ratio | 69.6% | 54.6% | (15.1) |
| Net loans to deposits (FX-adjusted) | 130% | 130% | 0 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RSD (closing) | 2.8 | 3.1 | 11 |
| HUF/RSD (average) | 2.8 | 3.0 | 8 |

- ***The annual after-tax profit amounted to HUF 7.3 billion in 2020 (-30%); in 4Q, HUF 3.1 billion loss emerged and nearly HUF 13 billion provision was put aside***
- ***The integration is progressing well, the full-year cost/income ratio sank to 54.6%***
- ***Performing (Stage1+2) loansexpanded by 3% y-o-y***

*The financial closure of Societe Generale banka Srbija transaction was completed on 24 September 2019. Following the transaction, the name of the acquired bank was changed to OTP banka Srbija. The Serbian financial statements present the acquired bank's balance sheet starting from 3Q 2019, and its P&L account starting from 4Q 2019.*

*The Serbian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among the adjustment items. The balance sheet items were not adjusted for these effects.*

In 2020, the **Serbian banking group** generated HUF 7.3 billion adjusted after-tax profit.

Following the financial closure of the acquisition at the end of September 2019, the Serbian operation's total markets share by balance sheet total jumped to 13.5% on pro forma basis, based on the latest available data from end-September 2020.

The integration of the bank acquired in 2019 is in progress. Since the end of September 2019, the total number of branches in Serbia dropped by 23 (-10%). The number of employees declined by 140 workers y-o-y (-4%).

Both deposits and performing loans (Stage 1+2) showed double-digit y-o-y growth rates (FX-adjusted), thus the Serbian bank's net loan/deposit ratio remained flat at 130% y-o-y.

Both the retail and the corporate loan segments posted growth: consumer loans expanded by 22% y-o-y (FX-adjusted), and mortgage loans increased by 13%, while corporate loans, which make up nearly half of the performing (Stage 1+2) portfolio, rose by 14% y-o-y. Recovering from the low hit in the second quarter, the volume of new loan disbursements has been steadily rising.

The y-o-y dynamics of P&L lines were predominantly determined by the acquisition, and they were also affected by the 8% weakening of the HUF's average exchange rate against the Serbian dinar.

The underlying business development trends can be captured the best by analysing the 4Q 2020 y-o-y developments, as those are comparable with the base period and undistorted by the acquisition effects. The 4Q operating profit improved by 16% y-o-y, as income rose by 6% and operating expenses declined. In 4Q, the y-o-y dynamics of net interest income was positively affected by the outstanding expansion of (Stage 1+2) loan volumes (+16% y-o-y; FX-adjusted), even as net interest margin eroded by 32 bps y-o-y, to 3.1%, reflecting the effect of the lower interest rate environment. Net fees and commissions were stable y-o-y in 4Q 2020.

In 4Q, operating expenses dropped by 1% y-o-y, while the bank's cost/income ratio improved by 3.8 pps y-o-y, to 54.9% in the fourth quarter.

In 2020, total risk cost amounted to -HUF 27.4 billion, of which -HUF 12.5 billion was booked in the fourth quarter. In 2020, the credit risk cost ratio was 1.62%.

As regards loan quality, the volume of more than 90 days past due loans (FX-adjusted, without sales/write-offs) rose by HUF 3.3 billion in full year 2020.

The ratio of Stage 3 loans rose by 0.4 pp y-o-y, their own provision coverage ratio improved by 3.6 pps y-o-y, to 53.6% by the end of December. Stage 2 loans were affected by a number factors: in 1Q, the corporate portfolios most exposed to the pandemic were reclassified to Stage 2 (increased risk), while in the second quarter those were mostly retail loans that were shifted.

In Serbia, there were three phases of the loan repayment moratorium. The application deadline for the third one is the end of April 2021; the maximum term of the moratorium can be up to six months.

## SKB BANKA (SLOVENIA)

**Performance of SKB Banka (Slovenia):**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | | 9,665 | |
| Income tax | | (2,439) | |
| Profit before income tax | | 12,104 | |
| Operating profit | | 19,787 | |
| Total income | | 40,388 | |
| Net interest income | | 28,103 | |
| Net fees and commissions | | 11,127 | |
| Other net non-interest income | | 1,158 | |
| Operating expenses | | (20,601) | |
| Total provisions | | (7,683) | |
| Provision for impairment on loan and placement losses | | (6,244) | |
| Other provision | | (1,440) | |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 1,130,871 | 1,353,772 | 20 |
| Gross customer loans | 831,139 | 909,439 | 9 |
| Gross customer loans (FX-adjusted) | 918,174 | 909,439 | (1) |
| Retail loans | 540,374 | 539,678 | 0 |
| Corporate loans | 249,584 | 248,855 | 0 |
| Car financing loans | 128,216 | 120,906 | (6) |
| Allowances for possible loan losses | (4,051) | (14,876) | 267 |
| Allowances for possible loan losses (FX-adjusted) | (4,475) | (14,876) | 232 |
| Deposits from customers | 880,839 | 1,136,666 | 29 |
| Deposits from customers (FX-adjusted) | 971,653 | 1,136,666 | 17 |
| Retail deposits | 853,172 | 973,276 | 14 |
| Corporate deposits | 118,481 | 163,390 | 38 |
| Liabilities to credit institutions | 94,909 | 29,524 | (69) |
| Total shareholders' equity | 132,667 | 166,124 | 25 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 822,118 | 753,584 | (8) |
| Stage 1 loans under IFRS 9/gross customer loans | 98.9% | 82.9% | (16.0) |
| Own coverage of Stage 1 loans under IFRS 9 | 0.4% | 0.5% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 0 | 142,015 | |
| Stage 2 loans under IFRS 9/gross customer loans | 0.0% | 15.6% | |
| Own coverage of Stage 2 loans under IFRS 9 | 0.0% | 4.3% | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 9,020 | 13,840 | 53 |
| Stage 3 loans under IFRS 9/gross customer loans | 1.1% | 1.5% | 0.4 |
| Own coverage of Stage 3 loans under IFRS 9 | 8.7% | 36.3% | 27.6 |
| Provision for impairment on loan and placement losses/average gross loans | | 0.70% | |
| 90+ days past due loan volume (in HUF million) | 2,967 | 3,620 | 22 |
| 90+ days past due loans/gross customer loans | 0.4% | 0.4% | 0.0 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | | 0.8% | |
| ROE | | 6.3% | |
| Total income margin | | 3.18% | |
| Net interest margin | | 2.21% | |
| Cost/income ratio | | 51.0% | |
| Net loans to deposits (FX-adjusted) | 94% | 79% | (15) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

*OTP Group's financial statements include the Slovenian bank's balance sheet starting from end-2019, and its P&L from the first quarter of 2020.*

*The Slovenian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among adjustment items. The balance sheet items were not adjusted for the acquisition effects.*

OTP Group's **Slovenian** subsidiary generated HUF 9.7 billion adjusted after-tax profit in full year 2020. The full-year ROE was 6.3% in 2020, with 51% cost/income ratio, 2.21% net interest margin, and 70 bps credit risk cost ratio.

At the end of 2020, the ratio of Stage 3 loans remained steady at 1.5%. The own provision coverage ratio of Stage 3 loans stood at 36.3%. When the Slovenian bank was consolidated into the Group, Stage 3

loans were netted with the related provisions. In full year 2020, DPD90+ loan volumes (FX-adjusted, without sales/write-offs) grew by HUF 0.6 billion.

The FX adjusted volume of Stage 1+2 loans dropped by 1% y-o-y; within that, retail loans shrank by 9%, while corporate loan volumes expanded by 18%.

The FX-adjusted deposit stock grew by 17% y-o-y. The net loan/deposit ratio stood at 79%.

## OTP BANK ROMANIA

**Performance of OTP Bank Romania:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 6,309 | 1,558 | (75) |
| Income tax | (598) | 91 | (115) |
| Profit before income tax | 6,906 | 1,467 | (79) |
| Operating profit | 12,314 | 11,811 | (4) |
| Total income | 37,530 | 43,748 | 17 |
| Net interest income | 28,254 | 32,739 | 16 |
| Net fees and commissions | 3,180 | 3,813 | 20 |
| Other net non-interest income | 6,097 | 7,195 | 18 |
| Operating expenses | (25,216) | (31,937) | 27 |
| Total provisions | (5,408) | (10,344) | 91 |
| Provision for impairment on loan and placement losses | (3,018) | (7,840) | 160 |
| Other provision | (2,390) | (2,504) | 5 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 953,345 | 1,162,183 | 22 |
| Gross customer loans | 708,299 | 861,393 | 22 |
| Gross customer loans (FX-adjusted) | 773,358 | 861,393 | 11 |
| Retail loans | 522,937 | 587,724 | 12 |
| Corporate loans | 237,111 | 257,860 | 9 |
| Car financing loans | 13,311 | 15,809 | 19 |
| Allowances for possible loan losses | (39,327) | (48,174) | 22 |
| Allowances for possible loan losses (FX-adjusted) | (42,997) | (48,174) | 12 |
| Deposits from customers | 546,350 | 710,047 | 30 |
| Deposits from customers (FX-adjusted) | 590,707 | 710,047 | 20 |
| Retail deposits | 442,397 | 506,773 | 15 |
| Corporate deposits | 148,310 | 203,274 | 37 |
| Liabilities to credit institutions | 257,404 | 284,173 | 10 |
| Total shareholders' equity | 116,432 | 127,238 | 9 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 593,922 | 690,664 | 16 |
| Stage 1 loans under IFRS 9/gross customer loans | 83.9% | 80.2% | (3.7) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.3% | 1.0% | (0.3) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 61,556 | 114,615 | 86 |
| Stage 2 loans under IFRS 9/gross customer loans | 8.7% | 13.3% | 4.6 |
| Own coverage of Stage 2 loans under IFRS 9 | 5.7% | 9.0% | 3.3 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 52,821 | 56,113 | 6 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.5% | 6.5% | (1.0) |
| Own coverage of Stage 3 loans under IFRS 9 | 53.7% | 54.6% | 0.9 |
| Provision for impairment on loan and placement losses/average gross loans | 0.47% | 0.99% | 0.52 |
| 90+ days past due loan volume (in HUF million) | 35,416 | 38,713 | 9 |
| 90+ days past due loans/gross customer loans | 5.0% | 4.5% | (0.5) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 0.7% | 0.1% | (0.6) |
| ROE | 6.6% | 1.3% | (5.3) |
| Total income margin | 4.37% | 4.18% | (0.19) |
| Net interest margin | 3.29% | 3.13% | (0.16) |
| Cost/income ratio | 67.2% | 73.0% | 5.8 |
| Net loans to deposits (FX-adjusted) | 124% | 115% | (9) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RON (closing) | 69.1 | 75.0 | 9 |
| HUF/RON (average) | 68.6 | 72.6 | 6 |

**OTP Bank Romania** generated HUF 1.6 billion after-tax profit in 2020, 75% less than in the base period. In 2020, operating profit dropped by 4% in HUF (by 9% in local currency), as a result of a 17% y-o-y increase in total income, and a 27% surge in operating expenses. Net interest income grew by 16%, bolstered by a dynamic expansion in performing loan volumes, while the net interest margin dropped by 16 bps last year.

In 2020, operating expenses grew by 27% y-o-y (by 20% in local currency), largely because of the growth strategy launched in 2019: IT and digital developments boosted IT costs, while personnel expenses were 27% higher than a year earlier, owing to the general wage inflation, as well as the 15% rise in annual average headcount. As a result of the rising costs, the cost/income ratio increased by 5.8 pps, to 73.0% in 2020.

As a result of the growth strategy, both loan and deposit volumes grew dynamically in 2020. Due to the increased lending activity, performing (Stage 1+2) mortgage loan volumes increased by 15% y-o-y (FX-adjusted). Performing (Stage 1+2) loans to micro and small enterprises grew by 15%, and corporate exposures rose by 10% y-o-y. The FX-adjusted deposit volumes expanded by 20% y-o-y, supported by both the retail and corporate segments. The net loan/deposit ratio stood at 115% at the end of 2020 (-9 pps y-o-y). In 2020, OTP Bank Romania increased its market share in all segments. In the stock of housing loans, the Romanian operation increased its market share from 3.7% to 4.2% y-o-y.

Regarding loan quality, in 2020 the volume of DPD90+ loans grew by HUF 7 billion (FX-adjusted, without sales and write-offs), much of which was caused by corporate loans that slipped into delinquency in 2Q 2020.

The ratio of Stage 2 loans grew by 4.6 pps y-o-y, largely affected by the reclassification of Stage 1 loans (-3.7 pps y-o-y) owing to the pandemic. The own coverage of Stage 1+2 loans increased in y-o-y terms.

The ratio of Stage 3 loans remained on a downward trend in 2020. At the end of the year, Stage 3 loans made up 6.5% of gross loan volume (-0.9 pp y-o-y). Reasons for the decline included the sale/write-off of bad loans, as well as the rapid growth of loans. The own coverage of Stage 3 loans grew over the fourth quarter, bringing the ratio to 54.6% by the end of the year.

In 2020, total provisions grew by 91% y-o-y. Within that, loan loss provisions increased significantly (by HUF 4.8 billion) owing to the COVID-19 pandemic effects.

## OTP BANK UKRAINE

**Performance of OTP Bank Ukraine:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 35,223 | 26,104 | (26) |
| Income tax | (6,937) | (5,485) | (21) |
| Profit before income tax | 42,160 | 31,589 | (25) |
| Operating profit | 44,353 | 42,030 | (5) |
| Total income | 67,451 | 67,385 | 0 |
| Net interest income | 48,128 | 48,581 | 1 |
| Net fees and commissions | 14,877 | 13,540 | (9) |
| Other net non-interest income | 4,446 | 5,264 | 18 |
| Operating expenses | (23,098) | (25,355) | 10 |
| Total provisions | (2,194) | (10,441) | 376 |
| Provision for impairment on loan and placement losses | (1,433) | (6,286) | 339 |
| Other provision | (761) | (4,155) | 446 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 646,295 | 729,012 | 13 |
| Gross customer loans | 468,715 | 443,031 | (5) |
| Gross customer loans (FX-adjusted) | 431,920 | 443,031 | 3 |
| Retail loans | 136,749 | 118,709 | (13) |
| Corporate loans | 252,194 | 274,187 | 9 |
| Car financing loans | 42,977 | 50,136 | 17 |
| Allowances for possible loan losses | (69,785) | (46,200) | (34) |
| Allowances for possible loan losses (FX-adjusted) | (64,223) | (46,200) | (28) |
| Deposits from customers | 431,944 | 493,884 | 14 |
| Deposits from customers (FX-adjusted) | 394,459 | 493,884 | 25 |
| Retail deposits | 176,949 | 222,112 | 26 |
| Corporate deposits | 217,509 | 271,772 | 25 |
| Liabilities to credit institutions | 79,331 | 91,059 | 15 |
| Total shareholders' equity | 109,128 | 117,071 | 7 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 345,955 | 365,266 | 6 |
| Stage 1 loans under IFRS 9/gross customer loans | 73.8% | 82.4% | 8.6 |
| Own coverage of Stage 1 loans under IFRS 9 | 0.9% | 1.9% | 1.0 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 41,847 | 31,726 | (24) |
| Stage 2 loans under IFRS 9/gross customer loans | 8.9% | 7.2% | (1.7) |
| Own coverage of Stage 2 loans under IFRS 9 | 8.3% | 15.9% | 7.6 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 80,913 | 46,039 | (43) |
| Stage 3 loans under IFRS 9/gross customer loans | 17.3% | 10.4% | (6.9) |
| Own coverage of Stage 3 loans under IFRS 9 | 77.9% | 74.3% | (3.6) |
| Provision for impairment on loan and placement losses/average gross loans | 0.34% | 1.39% | 1.05 |
| 90+ days past due loan volume (in HUF million) | 51,913 | 28,401 | (45) |
| 90+ days past due loans/gross customer loans | 11.1% | 6.4% | (4.7) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 7.0% | 3.8% | (3.2) |
| ROE | 42.5% | 23.0% | (19.5) |
| Total income margin | 13.38% | 9.78% | (3.60) |
| Net interest margin | 9.55% | 7.05% | (2.50) |
| Cost/income ratio | 34.2% | 37.6% | 3.4 |
| Net loans to deposits (FX-adjusted) | 93% | 80% | (13) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/UAH (closing) | 12.4 | 10.5 | (15) |
| HUF/UAH (average) | 11.3 | 11.4 | 1 |

*OTP Bank Ukraine's financial data in HUF terms were affected by the HUF/UAH exchange rate moves: by the end of 2020, the UAH's closing rate against the HUF depreciated by 16% y-o-y. The full-year average rate firmed 1%. As a result, the balance sheet and P&L dynamics expressed in HUF terms differ from those in local currency.*

**OTP Bank Ukraine** generated HUF 26.1 billion after-tax profit in 2020. The 26% y-o-y contraction stems from stronger provisioning, and a 6% drop in operating profit, in UAH.

After the second quarter, which was an intra-year low in lending, disbursement dynamics have steadily improved. Corporate loan disbursement expanded by an impressive 38% y-o-y in 2020. By the end of the year, performing (Stage 1+2) loans grew by 11% y-o-y (FX-adjusted). Net loan/deposit ratio stood at 80% at the end of 2020.

Operating profit dropped by 6% y-o-y in local currency in full-year 2020. In 2020, total income shrank by 1% y-o-y in local currency, chiefly because net fees and commissions fell by 10%. Net interest income was stable y-o-y, even if net interest margin shrank 2.5 pp, nearing 7%. This is predominantly due to the significantly lower interest rate environment: the base rate fell by a total of 750 bps, to 6% in 2020.

In 2020, operating expenses grew by 9% in UAH, largely because of higher wage costs, and a 7% rise in administrative expenses.

In 2020, total risk cost amounted to -HUF 10.4 billion. In 2020, risk cost ratio was at 1.39% (+105 bps y-o-y).

In Ukraine, there was no compulsory debt repayment moratorium. As to loan quality, more than 90 days past due loan volumes increased in 2020 by HUF 1 billion (FX-adjusted, without sales/write-offs), compared to HUF 4 billion in 2019.

In 2020 the Stage 3 loans' share in the whole portfolio shrank by 6.9 pps y-o-y to 10.4%. By the end of 2020, the own provision coverage of Stage 3 loans dropped by 3.6 pps y-o-y, to 74.3%, as loans with high coverage were the sold/written off. The own provision coverage of Stage 2 loans grew to 15.9%, and that of Stage 1 loans has nearly doubled y-o-y, to 1.9%. This is resulting from the following: as precautionary move in the first half of the year corporate loans were reclassified from Stage 1 to Stage 2. Now, in 4Q, these were returned to Stage 1 category, but the previously created higher impairment for these loans was retained, as general provisions.

## OTP BANK RUSSIA

**Performance of OTP Bank Russia**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 28,127 | 16,317 | (42) |
| Income tax | (8,272) | (5,092) | (38) |
| Profit before income tax | 36,399 | 21,409 | (41) |
| Operating profit | 84,946 | 65,068 | (23) |
| Total income | 146,582 | 123,198 | (16) |
| Net interest income | 113,572 | 99,872 | (12) |
| Net fees and commissions | 31,012 | 22,503 | (27) |
| Other net non-interest income | 1,998 | 823 | (59) |
| Operating expenses | (61,636) | (58,130) | (6) |
| Total provisions | (48,547) | (43,659) | (10) |
| Provision for impairment on loan and placement losses | (46,123) | (41,160) | (11) |
| Other provision | (2,424) | (2,499) | 3 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 908,388 | 688,980 | (24) |
| Gross customer loans | 786,241 | 597,849 | (24) |
| Gross customer loans (FX-adjusted) | 661,721 | 597,849 | (10) |
| Retail loans | 573,592 | 505,902 | (12) |
| Corporate loans | 80,304 | 74,239 | (8) |
| Car financing loans | 7,825 | 17,708 | 126 |
| Allowances for possible loan losses | (152,741) | (127,598) | (16) |
| Allowances for possible loan losses (FX-adjusted) | (128,479) | (127,598) | (1) |
| Deposits from customers | 471,735 | 350,608 | (26) |
| Deposits from customers (FX-adjusted) | 403,021 | 350,608 | (13) |
| Retail deposits | 301,897 | 288,058 | (5) |
| Corporate deposits | 101,124 | 62,550 | (38) |
| Liabilities to credit institutions | 155,306 | 90,852 | (42) |
| Total shareholders' equity | 202,761 | 183,402 | (10) |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 589,553 | 447,094 | (24) |
| Stage 1 loans under IFRS 9/gross customer loans | 75.0% | 74.8% | (0.2) |
| Own coverage of Stage 1 loans under IFRS 9 | 5.3% | 4.6% | (0.7) |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 94,413 | 67,394 | (29) |
| Stage 2 loans under IFRS 9/gross customer loans | 12.0% | 11.3% | (0.7) |
| Own coverage of Stage 2 loans under IFRS 9 | 27.4% | 43.1% | 15.7 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 102,274 | 83,361 | (18) |
| Stage 3 loans under IFRS 9/gross customer loans | 13.0% | 13.9% | 0.9 |
| Own coverage of Stage 3 loans under IFRS 9 | 93.4% | 93.4% | 0.0 |
| Provision for impairment on loan and placement losses/average gross loans | 6.61% | 6.36% | (0.25) |
| 90+ days past due loan volume (in HUF million) | 96,484 | 77,929 | (19) |
| 90+ days past due loans/gross customer loans | 12.3% | 13.0% | 0.7 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 3.4% | 2.1% | (1.3) |
| ROE | 15.7% | 8.9% | (6.8) |
| Total income margin | 17.53% | 16.03% | (1.50) |
| Net interest margin | 13.58% | 13.00% | (0.58) |
| Cost/income ratio | 42.0% | 47.2% | 5.2 |
| Net loans to deposits (FX-adjusted) | 132% | 134% | 2 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/RUB (closing) | 4.7 | 4.0 | (15) |
| HUF/RUB (average) | 4.5 | 4.3 | (4) |

*OTP Bank Russia's financial figures in HUF terms were affected by the moves in the HUF/RUB pair: at the end of 2020, the RUB's exchange rate against the HUF weakened 16% y-o-y. The average exchange rate depreciated by 5% in 2020. Therefore, the balance sheet and P&L dynamics in HUF terms differ from those in local currency.*

**OTP Bank Russia** generated HUF 16.3 billion profit in 2020, which is 39% less than in the base period (in local currency). The y-o-y drop in after-tax profit is a result of a 20% fall in operating profit and a 6% decline in risk cost, in local currency.

Ending three quarters of decline in the first three quarters of 2020, the performing (Stage 1+2) loan volume grew by an FX-adjusted 9% q-o-q in 4Q, resulting in a 11% y-o-y decline for 2020 as a whole. Performing consumer loan volumes shrank by 14% y-o-y; while the mid- and large corporate segment fell by

6%. There was a steady growth in car financing throughout the year, resulting in a 126% y-o-y increase from a relatively low base, FX-adjusted.

Meanwhile, customer deposits declined by an FX-adjusted 13% y-o-y. The FX-adjusted net loan/deposit ratio rose by 2 pps y-o-y, to 134%.

In 2020, total income declined by 12% y-o-y in RUB terms, including an 8% drop in net interest income, and a 24% fall in net fees and commissions. Total income margin eroded by 1.5 pps y-o-y, while net interest margin came down 59 bps, to 13%.

Due to lower administrative expenses, operating expenses declined by 1% y-o-y in full year 2020 in RUB, thus the annual cost/income ratio rose by 5.1pps, to 47.2%.

In 2020, total risk cost dropped by 6% in RUB, and the credit risk cost ratio declined 0.25 pp y-o-y, to 6.36%.

The ratio of Stage 3 loans upped by 0.9 pp y-o-y, to 13.9%; while nearly HUF 38 billion non-performing loans were sold or written off in 2020 (FX-adjusted), which is 10% increase compared to full year 2019.

## CKB GROUP (MONTENEGRO)

**Performance of CKB Group:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 6,377 | 4,307 | (32) |
| Income tax | (679) | (302) | (56) |
| Profit before income tax | 7,056 | 4,609 | (35) |
| Operating profit | 5,692 | 8,353 | 47 |
| Total income | 16,120 | 22,095 | 37 |
| Net interest income | 11,464 | 17,188 | 50 |
| Net fees and commissions | 4,215 | 4,446 | 5 |
| Other net non-interest income | 441 | 461 | 5 |
| Operating expenses | (10,428) | (13,743) | 32 |
| Total provisions | 1,364 | (3,743) | (374) |
| Provision for impairment on loan and placement losses | 1,293 | (3,434) | (366) |
| Other provision | 71 | (309) | (535) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 439,836 | 477,676 | 9 |
| Gross customer loans | 319,836 | 362,067 | 13 |
| Gross customer loans (FX-adjusted) | 353,327 | 362,067 | 2 |
| Retail loans | 178,523 | 173,693 | (3) |
| Corporate loans | 174,707 | 188,299 | 8 |
| Car financing loans | 97 | 75 | (23) |
| Allowances for possible loan losses | (19,518) | (24,510) | 26 |
| Allowances for possible loan losses (FX-adjusted) | (21,562) | (24,510) | 14 |
| Deposits from customers | 318,216 | 324,671 | 2 |
| Deposits from customers (FX-adjusted) | 350,637 | 324,671 | (7) |
| Retail deposits | 228,438 | 213,067 | (7) |
| Corporate deposits | 122,199 | 111,604 | (9) |
| Liabilities to credit institutions | 36,733 | 58,967 | 61 |
| Total shareholders' equity | 66,188 | 76,556 | 16 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 283,959 | 294,548 | 4 |
| Stage 1 loans under IFRS 9/gross customer loans | 88.8% | 81.4% | (7.4) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.1% | 1.3% | 0.2 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 12,509 | 41,390 | 231 |
| Stage 2 loans under IFRS 9/gross customer loans | 3.9% | 11.4% | 7.5 |
| Own coverage of Stage 2 loans under IFRS 9 | 4.8% | 9.3% | 4.5 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 23,369 | 26,129 | 12 |
| Stage 3 loans under IFRS 9/gross customer loans | 7.3% | 7.2% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 68.2% | 63.9% | (4.3) |
| Provision for impairment on loan and placement losses/average gross loans | (0.56%) | 0.99% | 1.55 |
| 90+ days past due loan volume (in HUF million) | 17,058 | 17,538 | 3 |
| 90+ days past due loans/gross customer loans | 5.3% | 4.8% | (0.5) |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.9% | 0.9% | (1.0) |
| ROE | 11.9% | 6.0% | (5.9) |
| Total income margin | 4.86% | 4.70% | (0.16) |
| Net interest margin | 3.45% | 3.65% | 0.20 |
| Cost/income ratio | 64.7% | 62.2% | (2.5) |
| Net loans to deposits (FX-adjusted) | 95% | 104% | 9 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

*On 27 February 2019 Crnogorska komercijalna banka a.d. signed an agreement to purchase the 90.56% stake from Societe Generale banka Montenegro a.d., the Montenegrin subsidiary of the Societe Generale Group. The financial closure of the transaction was completed on 16 July 2019. On 11 December 2020, Podgoricka Banka AD Podgorica was merged into Crnogorska Komercijalna Banka AD.*

*The Montenegrin operation's P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are presented at consolidated level, among the adjustment items. The balance sheet items were not adjusted for these effects.*

In full year 2020, the Montenegrin **CKB Group** generated HUF 4.3 billion adjusted profit, which was 32% less than in the base period.

What affected the y-o-y comparability of P&L lines was that the financial closure of the acquisition was completed on 25 July 2019, therefore the acquired bank's contribution was consolidated from 3Q 2019. The operating profit surged by 47% (including the 50% jump in net interest income), and operating expenses grew by 32%. Furthermore, total provisions were released in the base period, while the pandemic necessitated creating provisions in 2020. In 2020, ROE (6.0%) and the cost/income ratio (62.2%) fell y-o-y, while net interest margin (3.65%) increased.

In full year 2020, DPD90+ loan volumes (FX-adjusted, without sales and write-offs) increased by HUF 1.5 billion. The DPD90+ ratio (4.8%) declined by 0.5 pp y-o-y; meanwhile HUF 2.8 billion non-performing loans were sold/written off in 2020. At the end of 2020, the ratio of Stage 3 loans stood at 7.2% (-0.1 pp y-o-y), their own provision coverage was at 63.9%.

Performing (Stage 1+2) loans expanded 3% y-o-y (FX-adjusted).

The FX-adjusted loan book contracted by 7% y-o-y. The net loan/deposit ratio stood at 104% at the end of year (+9 pps y-o-y).

## OTP BANK ALBANIA (ALBANIA)

**Performance of OTP Bank Albania:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 2,616 | 1,959 | (25) |
| Income tax | (459) | (489) | 7 |
| Profit before income tax | 3,075 | 2,448 | (20) |
| Operating profit | 3,702 | 5,904 | 59 |
| Total income | 7,953 | 11,597 | 46 |
| Net interest income | 6,697 | 9,824 | 47 |
| Net fees and commissions | 1,007 | 1,278 | 27 |
| Other net non-interest income | 248 | 495 | 100 |
| Operating expenses | (4,250) | (5,693) | 34 |
| Total provisions | (627) | (3,455) | 451 |
| Provision for impairment on loan and placement losses | (249) | (2,515) | 910 |
| Other provision | (379) | (940) | 148 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 247,997 | 286,606 | 16 |
| Gross customer loans | 147,777 | 180,815 | 22 |
| Gross customer loans (FX-adjusted) | 161,373 | 180,815 | 12 |
| Retail loans | 72,937 | 83,948 | 15 |
| Corporate loans | 86,138 | 94,275 | 9 |
| Car financing loans | 2,299 | 2,592 | 13 |
| Allowances for possible loan losses | (3,657) | (8,089) | 121 |
| Allowances for possible loan losses (FX-adjusted) | (4,001) | (8,089) | 102 |
| Deposits from customers | 179,755 | 214,808 | 20 |
| Deposits from customers (FX-adjusted) | 196,492 | 214,808 | 9 |
| Retail deposits | 167,088 | 179,853 | 8 |
| Corporate deposits | 29,404 | 34,956 | 19 |
| Liabilities to credit institutions | 36,901 | 37,151 | 1 |
| Total shareholders' equity | 25,605 | 28,781 | 12 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 138,579 | 143,701 | 4 |
| Stage 1 loans under IFRS 9/gross customer loans | 93.8% | 79.5% | (14.3) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.2% | 1.3% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 4,593 | 31,620 | 588 |
| Stage 2 loans under IFRS 9/gross customer loans | 3.1% | 17.5% | 14.4 |
| Own coverage of Stage 2 loans under IFRS 9 | 10.1% | 10.4% | 0.3 |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 4,604 | 5,494 | 19 |
| Stage 3 loans under IFRS 9/gross customer loans | 3.1% | 3.0% | (0.1) |
| Own coverage of Stage 3 loans under IFRS 9 | 33.1% | 54.2% | 21.1 |
| Provision for impairment on loan and placement losses/average gross loans | 0.23% | 1.55% | 1.32 |
| 90+ days past due loan volume (in HUF million) | 2,270 | 3,984 | 76 |
| 90+ days past due loans/gross customer loans | 1.5% | 2.2% | 0.7 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 1.4% | 0.7% | (0.7) |
| ROE | 14.1% | 7.3% | (6.8) |
| Total income margin | 4.27% | 4.32% | 0.05 |
| Net interest margin | 3.59% | 3.66% | 0.07 |
| Cost/income ratio | 53.4% | 49.1% | (4.3) |
| Net loans to deposits (FX-adjusted) | 80% | 80% | 0 |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/ALL (closing) | 2.7 | 2.9 | 7 |
| HUF/ALL (average) | 2.6 | 2.8 | 8 |

*OTP Group's financial statements included the Albanian bank's P&L account since 2Q 2019.*

*The P&L statement of the Albanian operation was adjusted for the one-off items directly related to the acquisition; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

The y-o-y dynamics of balance sheet and P&L lines were predominantly determined by the acquisition. **OTP Bank Albania** generated HUF 2.0 billion after-tax profit in full year 2020, which was 25% less than in the base period, owing to higher risk costs; operating profit grew by 59% on yearly basis.

Full-year ROE (7.3%) declined, while cost/income ratio (49.1%) and net interest margin (3.66%) increased y-o-y.

At the end of 2020, the ratio of Stage 3 loans was 3.0%, reflecting a marginal y-o-y drop. The own provision coverage of Stage 3 loans improved to 54.2%. When the Albanian bank was consolidated, Stage 3 loans were netted with provisions. In full-year 2020, the volume of DPD90+ loans (FX-adjusted, without sales and write-offs) rose by HUF 1.5 billion.

The FX-adjusted volume of Stage 1+2 loans expanded by 12% y-o-y; within that, retail loans surged 15%, while corporate and car financing loans expanded by a combined 10%.

The FX-adjusted deposit ratio surged 9% y-o-y, mostly fuelled by the strong growth in large corporate deposits. The net loan/deposit ratio remained flat at 80% y-o-y.

## MOBIASBANCA (MOLDOVA)

**Performance of Mobiasbanca:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit w/o dividends and net cash transfer | 1,936 | 3,973 | 105 |
| Income tax | (174) | (540) | 210 |
| Profit before income tax | 2,110 | 4,513 | 114 |
| Operating profit | 2,929 | 7,707 | 163 |
| Total income | 5,902 | 14,596 | 147 |
| Net interest income | 3,959 | 8,889 | 125 |
| Net fees and commissions | 891 | 2,137 | 140 |
| Other net non-interest income | 1,052 | 3,570 | 239 |
| Operating expenses | (2,974) | (6,889) | 132 |
| Total provisions | (819) | (3,193) | 290 |
| Provision for impairment on loan and placement losses | (737) | (2,695) | 266 |
| Other provision | (82) | (499) | 509 |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 211,043 | 249,921 | 18 |
| Gross customer loans | 104,763 | 132,081 | 26 |
| Gross customer loans (FX-adjusted) | 108,490 | 132,081 | 22 |
| Retail loans | 58,167 | 71,552 | 23 |
| Corporate loans | 48,781 | 58,467 | 20 |
| Car financing loans | 1,542 | 2,062 | 34 |
| Allowances for possible loan losses | (1,790) | (4,578) | 156 |
| Allowances for possible loan losses (FX-adjusted) | (1,857) | (4,578) | 147 |
| Deposits from customers | 161,071 | 203,176 | 26 |
| Deposits from customers (FX-adjusted) | 167,509 | 203,176 | 21 |
| Retail deposits | 115,397 | 133,395 | 16 |
| Corporate deposits | 52,111 | 69,781 | 34 |
| Liabilities to credit institutions | 12,342 | 5,906 | (52) |
| Total shareholders' equity | 34,518 | 37,287 | 8 |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 102,460 | 121,459 | 19 |
| Stage 1 loans under IFRS 9/gross customer loans | 97.8% | 92.0% | (5.8) |
| Own coverage of Stage 1 loans under IFRS 9 | 1.0% | 1.1% | 0.1 |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 880 | 6,670 | 658 |
| Stage 2 loans under IFRS 9/gross customer loans | 0.8% | 5.1% | 4.3 |
| Own coverage of Stage 2 loans under IFRS 9 | 23.6% | 19.5% | (4.1) |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 1,424 | 3,952 | 178 |
| Stage 3 loans under IFRS 9/gross customer loans | 1.4% | 3.0% | 1.6 |
| Own coverage of Stage 3 loans under IFRS 9 | 39.7% | 48.0% | 8.3 |
| Provision for impairment on loan and placement losses/average gross loans | 1.58% | 2.23% | 0.65 |
| 90+ days past due loan volume (in HUF million) | 383 | 2,109 | 451 |
| 90+ days past due loans/gross customer loans | 0.4% | 1.6% | 1.2 |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 2.1% | 1.7% | (0.4) |
| ROE | 12.6% | 10.7% | (1.9) |
| Total income margin | 6.31% | 6.24% | (0.07) |
| Net interest margin | 4.23% | 3.80% | (0.43) |
| Cost/income ratio | 50.4% | 47.2% | (3.2) |
| Net loans to deposits (FX-adjusted) | 64% | 63% | (1) |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/MDL (closing) | 17.1 | 17.3 | 1 |
| HUF/MDL (average) | 16.6 | 17.8 | 7 |

*The Moldovan bank was consolidated in 3Q 2019.*

*The P&L statement of the Moldovan operation was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.*

The y-o-y dynamics of balance sheet and P&L lines were basically determined by the acquisition. In full-year 2020, **Mobiasbanca** contributed to OTP Group's performance with HUF 4.0 billion after-tax profit. Full-year ROE (10.7%) and net interest margin (3.80%) declined, while cost/income ratio (47.2%) increased y-o-y.

In 2020, total provisions have nearly quadrupled y-o-y. This was affected by the fact that as the financial closure was completed on 25 July 2019, the acquired bank's contribution was consolidated from 3Q 2019. Also, in contrast to the provision release in 3Q 2019, in 2020 as a whole significant amount pf provisions

were set aside in the wake of the pandemic. At the end of 3Q 2020, the ratio of Stage 3 loans was 3.0% (+1.6 pps y-o-y); their own provision coverage stood at 48.0%. When the Moldovan bank was consolidated, Stage 3 loans were netted with provisions. In full-year 2020, the volume of DPD90+ loans (FX-adjusted, without sales and write-offs) grew by HUF 1.7 billion.

At the end of 2020, the FX-adjusted volume of performing (Stage 1+2) loans grew by 20% y-o-y; within that, both retail and corporate loans surged 20%.

FX-adjusted deposit volumes grew by 21% y-o-y. The FX-adjusted 34% y-o-y growth in corporate deposits owes a lot to the Banks' new customers. The net loan/deposit ratio stood at 63%, below the Group's average.

At the end of December 2020, the market share of OTP Group's Moldovan operation by balance sheet total, was 13.8%. This ranks it the fourth largest bank in Moldova.

## OTP BANKA SLOVENSKO (SLOVAKIA)

**Performance of OTP Banka Slovensko:**

| Main components of P&L account | 2019 HUF million | 2020 HUF million | Change % |
|---|---|---|---|
| After tax profit without the effect of adjustments | 1,575 | (1,166) | (174) |
| Income tax | (240) | (304) | 27 |
| Profit before income tax | 1,815 | (862) | (147) |
| Operating profit | 1,625 | 1,677 | 3 |
| Total income | 14,714 | 12,419 | (16) |
| Net interest income | 10,505 | 8,523 | (19) |
| Net fees and commissions | 3,884 | 3,208 | (17) |
| Other net non-interest income | 325 | 688 | 112 |
| Operating expenses | (13,089) | (10,742) | (18) |
| Total provisions | 190 | (2,539) | |
| Provision for impairment on loan and placement losses | 604 | (2,731) | (552) |
| Other provision | (414) | 192 | (146) |
| **Main components of balance sheet closing balances** | **2019** | **2020** | **%** |
| Total assets | 473,660 | | |
| Gross customer loans | 392,793 | | |
| Gross customer loans (FX-adjusted) | 433,900 | | |
| Retail loans | 371,538 | | |
| Corporate loans | 62,355 | | |
| Car financing loans | 7 | | |
| Allowances for possible loan losses | (24,338) | | |
| Allowances for possible loan losses (FX-adjusted) | (26,886) | | |
| Deposits from customers | 351,722 | | |
| Deposits from customers (FX-adjusted) | 387,890 | | |
| Retail deposits | 353,851 | | |
| Corporate deposits | 34,039 | | |
| Liabilities to credit institutions | 50,669 | | |
| Total shareholders' equity | 38,078 | | |
| **Loan Quality** | **2019** | **2020** | **%/pps** |
| Stage 1 loan volume under IFRS 9 (in HUF million) | 336,650 | | |
| Stage 1 loans under IFRS 9/gross customer loans | 85.7% | | |
| Own coverage of Stage 1 loans under IFRS 9 | 0.7% | | |
| Stage 2 loan volume under IFRS 9 (in HUF million) | 29,307 | | |
| Stage 2 loans under IFRS 9/gross customer loans | 7.5% | | |
| Own coverage of Stage 2 loans under IFRS 9 | 11.7% | | |
| Stage 3 loan volume under IFRS 9 (in HUF million) | 26,836 | | |
| Stage 3 loans under IFRS 9/gross customer loans | 6.8% | | |
| Own coverage of Stage 3 loans under IFRS 9 | 68.8% | | |
| Provision for impairment on loan and placement losses/average gross loans | (0.15%) | 0.76% | 0.91 |
| 90+ days past due loan volume (in HUF million) | 21,890 | | |
| 90+ days past due loans/gross customer loans | 5.6% | | |
| **Performance Indicators** | **2019** | **2020** | **pps** |
| ROA | 0.3% | (0.3%) | (0.6) |
| ROE | 5.2% | (3.4%) | (8.6) |
| Total income margin | 3.20% | 2.98% | (0.22) |
| Net interest margin | 2.29% | 2.04% | (0.25) |
| Cost/income ratio | 89.0% | 86.5% | (2.5) |
| Net loans to deposits (FX-adjusted) | 105% | | |
| **FX rates** | **2019 HUF** | **2020 HUF** | **Change %** |
| HUF/EUR (closing) | 330.5 | 365.1 | 10 |
| HUF/EUR (average) | 325.3 | 351.2 | 8 |

On 26 November 2020, the sale of **OTP Banka Slovensko a.s.** to KBC Group N.V. was concluded.

The Slovak bank was deconsolidated at the end of November, so its end of 2020 balance sheet does not appear in the Group's end of 2020 balance sheet. Between January and October 2020, the Slovak entity realised an adjusted loss of HUF 1.2 billion.

## STAFF LEVEL AND OTHER INFORMATION

| | 31/12/2019 | | | | 31/12/2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Branches | ATM | POS | Headcount (closing) | Branches | ATM | POS | Headcount (closing) |
| **OTP Core** | **361** | **1,936** | **77,962** | **10,083** | **362** | **1,920** | **125,800** | **10,189** |
| DSK Group (Bulgaria) | 440 | 1,140 | 12,915 | 6,186 | 334 | 1,094 | 14,329 | 5,619 |
| OBH (Croatia) | 136 | 480 | 10,856 | 2,251 | 124 | 488 | 11,037 | 2,228 |
| OTP Bank Serbia | 231 | 338 | 18,424 | 3,162 | 217 | 323 | 16,657 | 3,022 |
| SKB Banka (Slovenia) | 53 | 83 | 3,982 | 863 | 51 | 83 | 4,167 | 889 |
| OTP Bank Romania | 95 | 141 | 5,125 | 1,496 | 95 | 149 | 6,256 | 1,693 |
| OTP Bank Ukraine (w/o employed agents) | 88 | 166 | 331 | 2,399 | 86 | 161 | 402 | 2,313 |
| OTP Bank Russia (w/o employed agents) | 134 | 223 | 715 | 5,343 | 135 | 280 | 704 | 5,127 |
| CKB Group (Montenegro) | 48 | 128 | 6,908 | 681 | 34 | 115 | 6,421 | 514 |
| OTP Bank Albania | 37 | 76 | 0 | 424 | 38 | 80 | 0 | 447 |
| Mobiasbanca (Moldova) | 53 | 145 | 0 | 755 | 54 | 148 | 0 | 830 |
| OTP Banka Slovensko (Slovakia) | 58 | 157 | 159 | 671 | 0 | 0 | 0 | 0 |
| **Foreign subsidiaries, total** | **1,373** | **3,077** | **59,415** | **24,231** | **1,168** | **2,921** | **59,973** | **22,682** |
| Other Hungarian and foreign subsidiaries | | | | 590 | | | | 557 |
| **OTP Group (w/o employed agents)** | | | | **34,902** | | | | **33,427** |
| *OTP Bank Russia - employed agents* | | | | 5,083 | | | | 4,402 |
| *OTP Bank Ukraine - employed agents* | | | | 663 | | | | 618 |
| **OTP Group (aggregated)** | **1,734** | **5,013** | **137,377** | **40,650** | **1,530** | **4,841** | **185,773** | **38,448** |

Definition of headcount number: closing, active FTE (full-time employee). The employee is considered as full-time employee in case his/her employment conditions regarding working hours are in line with a full time employment defined in the Labour Code in the reporting entity's country. Part-time employees are taken into account proportional to the full time working hours being effective in the reporting entity's country.

Definition of branch numbers: data reported from 2020 are not comparable with previous quarters at OTP Core due to a methodological change. The introduction of the new methodology increased the number of branches by 9 units (ceteris paribus).

According to the NBH's definition, from 3Q 2020 the number of POS terminals includes all terminals where OTP is the acquirer, including terminals that are not exclusively authorized by OTP.

# STATEMENT ON CORPORATE GOVERNANCE PRACTICE

## Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

Beyond fulfilling the statutory requirements, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the websites of both the Stock Exchange (www.bet.hu) and the Bank (www.otpbank.hu).

## System of internal controls

OTP Bank Plc., as a provider of financial and investment services, operates a closely regulated and state-supervised system of internal controls.

OTP Bank Plc. has detailed risk management regulations applicable to all types of risks (liquidity, market, country, counterparty, credit, operational, compliance), which are in compliance with the legal regulations on prudent banking operations. Its risk management system extends to cover the identification of risks, the assessment and analysis of their impact, elaboration of the required action plans and the monitoring of their effectiveness and results. The business continuity framework is intended to provide for the continuity of services. Developed on the basis of international methodologies, the lifecycle model includes process evaluation, action plan development for critical processes, the regular review and testing of these, as well as related DRP activities.

To ensure effective auditing, the OTP Bank Plc.'s internal audit system is realised on several levels of control built on each other. The system of internal checks and balances includes a combination of process-integrated and management control, independent internal audit organisation and executive information system. The independent internal audit organisation as an element of internal lines of defence promotes the statutory and efficient management of assets and liabilities, the defence of property, the safe course of business, the efficient, economical and productive operation of internal control systems, the minimisation of risks, moreover – beside compliance organisation – it reveals and reports deviations from statutory regulations and internal rules, makes proposal to abolish deficiencies and follows up the execution of actions. The independent internal audit organisation annually and quarterly prepares group-level reports on control actions for the executive boards. Once a year, the internal audit organisation draws up, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions and, in line with the provisions of the Credit Institutions Act, reports, once a year, to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audits, and on the review of compliance with IT and other technical conditions needed for the audits.

In line with the regulations of the European Union, the applicable Hungarian laws and supervisory recommendations, OTP Bank Plc. established an independent organisational unit with the task of identifying and managing compliance risks.

## General meeting

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

In accordance with the provisions of the Government Decree 102/2020 (IV.10.), the resolutions on the published agenda items were made by the Company's Board of Directors acting in the competence of the General Meeting, which was originally announced to be on 17 April 2020, but cancelled on 26 March 2020 and then convened again to be held on 30 April 2020.

## Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority). When making the decisions, shares embodying multiple voting rights shall represent one share.

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share. The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General

Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

The membership of the Board of Directors ceases to exist by

a) expiry of the mandate,
b) resignation,
c) recall,
d) death,
e) the occurrence of grounds for disqualification as regulated by law.
f) termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;

- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition

of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

**Ownership structure of OTP Bank Plc.**

| Description of owner | Total equity | | | | | |
|---|---|---|---|---|---|---|
| | 1 January 2020 | | | 31 December 2020 | | |
| | Ownership share | Voting rights[1] | Quantity | Ownership share | Voting rights[1] | Quantity |
| Domestic institution/company | 18.84% | 18.86% | 52,750,611 | 20.93% | 21.26% | 58,605,628 |
| Foreign institution/company | 77.01% | 77.10% | 215,635,699 | 71.60% | 72.73% | 200,480,153 |
| Domestic individual | 2.98% | 2.98% | 8,344,202 | 4.79% | 4.87% | 13,424,090 |
| Foreign individual | 0.13% | 0.13% | 356,377 | 0.11% | 0.12% | 319,346 |
| Employees, senior officers | 0.80% | 0.80% | 2,240,465 | 0.85% | 0.87% | 2,393,390 |
| Treasury shares[2] | 0.12% | 0.00% | 323,520 | 1.55% | 0.00% | 4,334,140 |
| Government held owner | 0.08% | 0.08% | 219,372 | 0.08% | 0.08% | 219,800 |
| International Development Institutions | 0.04% | 0.04% | 122,218 | 0.04% | 0.04% | 108,981 |
| Other[3] | 0.00% | 0.00% | 7,546 | 0.04% | 0.04% | 114,482 |
| **TOTAL** | **100.00%** | **100.00%** | **280,000,010** | **100.00%** | **100.00%** | **280,000,010** |

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP (OTP Bank Employee Stock Ownership Plan Organization). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 December 2020 ESOP owned 5,097,255 OTP shares.
[3] Non-identified shareholders according to the shareholders' registry.

**Number of treasury shares held in the year under review (2020)**

| | 1 January | 31 March | 30 June | 30 September | 31 December |
|---|---|---|---|---|---|
| OTP Bank | 323,520 | 1,667,632 | 2,313,939 | 4,395,242 | 4,334,140 |
| Subsidiaries | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 323,520 | 1,667,632 | 2,313,939 | 4,395,242 | 4,334,140 |

**Shareholders with over/around 5% stake as at 31 December 2020**

| Name | Number of shares | Ownership[1] | Voting rights[1,2] |
|---|---|---|---|
| MOL (Hungarian Oil and Gas Company Plc.) | 24,000,000 | 8.57% | 8.71% |
| KAFIJAT Group | 19,835,748 | 7.08% | 7.20% |
| OPUS Securities S.A. | 14,496,476 | 5.18% | 5.26% |
| Groupama Group | 14,330,632 | 5.12% | 5.20% |

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

## Committees[16]

**Members of the Board of Directors**
Dr. Sándor Csányi – Chairman
Mr. Tamás Erdei – Deputy Chairman
Mr. Mihály Baumstark
Dr. Tibor Bíró
Dr. István Gresa
Mr. Antal Kovács
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös
Mr. László Wolf

**Members of the Supervisory Board**
Mr. Tibor Tolnay – Chairman
Dr. Gábor Horváth – Deputy Chairman
Mr. András Michnai
Ms. Klára Bella
Dr. Márton Gellért Vági
Mr. Olivier Péqueux

**Members of the Audit Committee**
Dr. Gábor Horváth – Chairman
Mr. Tibor Tolnay – Deputy Chairman
Dr. Márton Gellért Vági
Mr. Olivier Péqueux

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

### *Personal and organizational changes*

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2020, the Board of Directors acting in the competency of the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2020 until 30 April 2021.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Tibor Tolnay as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. József Gábor Horváth as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Olivier Péqueux as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. Márton Gellért Vági as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. András Michnai as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

[16] Personal changes can be found in the „Personal and organizational changes" chapter.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Tibor Tolnay as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. József Gábor Horváth as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Olivier Péqueux as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 30 April 2020 the Board of Directors acting in the competency of the Annual General Meeting, elects dr. Márton Gellért Vági as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.

On 20 July 2020 the labour contract of Dr. Zsolt Barna, Deputy Chief Executive Officer had been terminated by mutual agreement. Along with the termination of the labour contract with OTP Bank Plc, Dr. Zsolt Barna resigned from his positions held in different member companies of OTP Group.

### *Operation of the executive boards*

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive management body in its managerial function, while the Supervisory Board is the management body in its supervisory function of the Company. It controls the supervision of the lawfulness of the Company's operation, its business practices and management, performs oversight tasks and accepts the provisions of the Bank Group's Remuneration Policy. The effective operation of Supervisory Board is supported by the Audit Committee, as a committee, which also monitors the internal audit, the risk management, the reporting systems and the activities of the auditor.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or other committees, such as the Management Committee, the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of further permanent committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 8, the Supervisory Board held 6 meetings, while the Audit Committee held 1 meeting in 2020. In addition, resolutions were passed by the Board of Directors on 155, by the Supervisory Board on 108 and by the Audit Committee on 39 occasions by written vote.

### *Policy of diversity*

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.
When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.
With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.
It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.
For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 12 April, 2019. The management of OTP Bank Plc. currently comprises 7 members and has no female member.

## *ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS*

### Environmental protection principles

OTP Group is committed to the protection of the environment, the combating of climate change and its impacts, and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its Environmental Regulation. The Regulation ensures legal compliance and the consideration and integration of environmental criteria into the Bank's business operations in order to minimise the environmental impacts of operating and maintaining the Bank's organisation. It also sets out the rules on implementing the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation and received no fines in 2020 either.

In CDP's Climate Change Questionnaire, OTP Group achieved a rating of B-, improving on its performance in the year before.

OTP Bank set up an ESG Steering Committee in 2020 (see the Non-financial statement section about the operations of the committee). The schemes overseen by it focus on the embedding of environmental and climate protection considerations into financial services and on the related disclosures; and as such, among other things, the Committee launched an ESG lending project and created the Green Programme Directorate.

### Environmental protection in relation to the provision of banking services

By 2023, OTP Bank aims to become the Central European bank best equipped to provide green financing. The Green Programme Directorate was created to achieve this goal; its main purpose is to take full advantage of the opportunities inherent in green financing, helping OTP Group build as large a green portfolio as possible and exploit the market potential of green financing certification.

Pursuant to our internal regulations, our banking group conducts its lending activities expecting – and always verifying – compliance with the applicable environmental regulations. At the time of the internal approval by the bank of the financing of a project and before first disbursement, the availability of the required permits and authorisations and compliance with the provisions thereof is always verified by one or more external consultants (legal and/or technical experts); the Bank subsequently ensures compliance by obtaining regular declarations from the customer and conducting its own monitoring. The credit agreements stipulate sanctions for any breaches of commitments made or requirements imposed. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the credit ratings of large corporate clients.

With regards to project financing, our group gives high priority to financing projects aimed at the utilisation of renewable energy sources. In 2020, our lending policy was to increase the support for lending to this sector even further; we also reviewed our lending guidelines applicable to the solar energy sector. In 2020, we lent HUF 9.2 billion to the renewables sector, financing a total of 30 MW in solar power capacities. In terms of project financing, we also give special attention and preference to office building projects with sustainability / environmental certification.

As far as sectors with environmental benefits are concerned, our corporate lending policy is expressly supportive of the financing of agriculture and solar power. Starting from 2020, we reclassified the paper, paper products and packaging material industry as a category requiring increased caution. The creation of a new agricultural limit framework based on quantity indicators has the potential for accelerating lending from 2021, especially in the case of smaller farms.

OTP Bank leads a consortium offering products of the Hungarian Development Bank (MFB), including both EU-refinanced and those of MFB's own origination, at the MFB Points set up in our branches. Environmental protection has been assigned priority in our available loan products since 2017. Households and businesses can access preferential terms under these products to implement energy projects (improving energy efficiency and increasing the reliance on renewables). In 2020, loans of a total of HUF 16.0 billion were disbursed; of this, 98.6% was retail lending, since the corporate credit facility had been depleted. In the period between 2017 and 2020, the total of disbursed loan contracts amounted to HUF 43.4 billion, representing 28.4% of all loans granted via MFB Points.

OTP Jelzálogbank was the first credit institution in Hungary to join the Energy Efficient Mortgages Initiative (EEMI) pilot. The aim of the programme is to allow participants to jointly develop best practices in green lending and to support the overhaul and energy modernisation of the housing stock.

In 2020, our subsidiaries in Croatia, Moldova, Albania and Slovakia offered preferential loans incentivising energy efficiency and the use of renewables.

The objective of the OTP Climate Change 130/30 Fund of OTP Fund Management is to provide an opportunity to invest in the shares of developed and developing market companies that may be the beneficiaries of the directives, the legislation and the changes in economic policy aimed at reducing climate change impacts. As of the end of 2020, the Fund had HUF 31.3 billion net asset value, nearly four times higher than in the year before.

Our efforts to reduce the direct environmental impact of OTP Group's operations are centred around improving its energy efficiency and reducing its paper usage. The environmental risks associated with our operations are analysed and managed within our operational risk management process. Potential risks are identified in the course of the annual process-based self-assessment, and the assessment of climate change risks is also included in the scenario analysis of risks with low probability but high impact.

### Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects; we also expand our use of LED lighting technology on an ongoing basis. As part of the renovation process, we are replacing air conditioning units, always ensuring that the new units use environmentally-friendly coolants. In 2020, OTP Bank identified the branches with the highest relative energy consumption; all immediate remedial actions were completed at these locations. The refurbishment of 16 branches at the parent bank also yielded energy savings. At the subsidiaries, branch refurbishment projects also included energy efficiency measures; our Montenegrin subsidiary continued installing LED lighting and motion detectors at its head office building.

We are intensifying our reliance on renewable energy based on cost-efficiency criteria. Whenever a branch of the parent bank is renovated, we always examine the possibility of installing solar panels and heat pumps. We installed solar panels at three branches in 2020. Our systems generated a total of 1,250 GJ energy from solar power. Our central archives facility has been using geothermal energy for several years (the facility used to be owned by Monicomp Zrt, which merged into the parent bank during the year). The solar panels of our subsidiaries in Croatia and in Serbia generated a total of 383 GJ of solar power.

Energy use across the Banking Group was greatly impacted by the pandemic. As regards ventilation and fresh air in our buildings, air recirculation was suspended and ventilation was intensified instead; this increased our energy usage. Although the high rate of staff working from home reduced our electricity consumption, heating and cooling consumption was only marginally lower because our employees continued to work on site at all our organisations, albeit in smaller numbers.

The number of business trips and the size of the vehicle fleet are determined by the needs of the business. Our Group's vehicle policy sets carbon limits; also, there are environmentally-friendly vehicles among the cars available to choose from in all the vehicle categories. Our Montenegrin subsidiary installed an electric car charging station in front of its head office building during the year. Group-level total mileage decreased, mainly because of the Covid-19 pandemic. The total distance covered by all OTP Bank vehicles fell by 5% even though the fleets of two subsidiaries with high vehicle use rates (Monicomp, OTP Faktoring) were transferred to the parent bank.

Video conferencing helps cut down on the amount of business travel and is a solution that we are using ever more extensively year after year. The number of video conferencing rooms rose again in 2020, and the rooms were increasingly busy. Our existing bicycle storage facilities continued to be available to both customers and employees in 2020. In addition, 48 new storage spaces were created at OTP Bank's head office buildings; our Serbian and Montenegrin subsidiaries provided new storage at their head offices; our Bulgarian subsidiary provided storage at three locations for employees and customers alike; and the Ukrainian subsidiary installed storage in three locations.

Energy consumption figures are presented in respect of OTP Bank. The bank's overall energy consumption decreased by 3% compared to the previous year. However, due to our workforce expansion, this represents an 8% reduction in per-capita energy consumption.

| Volume of energy consumption, OTP Bank | 2020 | 2019 |
|---|---|---|
| Total energy consumption (GJ) | 242,390 | 250,610 |
| Per-capita energy consumption (GJ) | 25,76 | 28.14 |

Energy consumption data are derived from readings; the measured consumption volumes are converted to energy using local average calorific values. (Excluding Monicomp Zrt Consumption data.)
The projection basis for the per-capital figure is the average statistical headcount in 2019 and the average full-time employee count (FTE) in 2020.
2019 figures were slightly revised.

### Efforts to reduce paper use

OTP Group has been making a consistent effort to reduce paper use and printing. OTP Bank reduced its office paper usage by approximately 30%; the pandemic and increased rates of working from home played a significant role in this development. Nevertheless, our percentage of recycled paper relative to total office paper usage increased to 20% and we plan to increase that figure even further in the future. Since 2020, OTP Bank has been using FSC-certified paper for its account statements and marketing publications, and we use only ECO Label personal hygiene products. Due to the merger of Monicomp the paper usage at OTP Bank increased significantly. Our Serbian subsidiary also uses FSC-certified paper, whereas our Slovenian subsidiary uses paper with PEFC certification. Further factors leading to lower paper usage included the introduction of lower-weight office paper at our Bulgarian subsidiary, and the transitioning to electronic signatures at our Moldovan subsidiary.

| Paper usage quantities, OTP Bank | 2020 | 2019 |
|---|---|---|
| Total amount of paper used (t) (office, packaging, indirect) | 1,137 | 764 |
| Per capita paper use (kg)[1] | 121 | 86 |

[1] For 2019 the average statistical headcount was used in the numerator, whereas for 2020 it was the average full-time employee (FTE) count.

### Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest time reasonably possible. We explicitly aim to use furniture until the end of its lifecycle, reusing it multiple times and ensuring the compatibility of replacements. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organisations in need.

In order to cut the use of plastics in its archiving practices, our parent bank replaced ethylene bags and plastic wallets with paper products and introduced filtered water fountains. In 2020, we expanded the use of stamps made of recycled plastic. A number of our subsidiaries drew up schemes to reduce the use of plastics; implementation is expected in 2021.

Our subsidiaries in Serbia, Montenegro and Moldova use toner refills to reduce toner and ink cartridge waste.

Waste collection remained unchanged in most respects in 2020. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the relevant laws and regulations. The selective collection of non-confidential paper waste, PET bottles and – in a number of locations – glass is available in the head office buildings of OTP Bank. Our Ukrainian subsidiary operates selective paper collection at its head office building. Our Serbian subsidiary collects paper waste selectively in its branches and head office buildings. Our Albanian subsidiary collects paper waste selectively. Our Romanian subsidiary collects all paper, metal, glass and plastic selectively. Our Slovenian subsidiary also collects communal waste selectively (including biodegradable food waste). Our Croatian subsidiary has collected paper and plastic waste selectively for years, whereas the Slovakian subsidiary does so at the locations where this is facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna and expanded the selective collection of paper waste during the year. Our Montenegrin subsidiary introduced selective paper waste collection at its head office and its archives facility.

### Attitude shaping

Most members of our Banking Group have a tradition of raising awareness and taking joint action to protect environmental and natural resources. The programmes implemented with the help of our employees are increasingly wide-ranging, covering almost all aspects of nature conservation and environmental protection:

- In 2020, OTP Bank continued to support the Hungarian Hikers' Association's efforts to popularise hiking.
- DSK Bank introduced its "Green Week" campaign. Water was the central theme of the first campaign week, when interesting information and water conservation advice was shared, and our employees submitted more than 30 recommendations on how the Bank could help reduce water consumption. A photo competition was announced and over 200 submissions were received. The subject of the second campaign week was waste; this involved, among other things, our continued participation in the nationwide PET bottle cap collection scheme (the caps are used for producing wheelchairs).
- Our Croatian subsidiary sponsored the Adriatic Sea clean-up programme of the scuba diving club in Split.

- Our Serbian subsidiary highlighted the importance of the responsible use of resources in the context of the pandemic. Our employees also planted trees.
- At our Russian subsidiary, environmental awareness messages were displayed on computer screens and in the offices.
- The employees of our Ukrainian subsidiary planted trees at several locations in 2020.
- Volunteers from our Romanian subsidiary participated in the “Let’s Do It, Romania!” cleanup day.
- Our Slovenian subsidiary keeps bees outside its head office building as part of the Nature in the City scheme, contributing to the preservation of a Slovenian species of bee.
- Our Montenegrin subsidiary used posters and newsletters as regular environmental awareness reminders for its employees. In 2020, the bank once again participated in nationwide afforestation and environmental protection campaigns.

## NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The social, environmental and wider economic performance and impacts of OTP Group are also reported in its dedicated Sustainability Report. The Sustainability Report for 2020 is a group-level report that meets the GRI (Global Reporting Initiative) Standard, and is certified by an independent third party. It is available as a digital version on OTP Bank's website. The information in this chapter is provided in order to comply with the Accounting Act, while also aiming to keep the duplication of information to a minimum. Information concerning environmental protection and climate change is provided mainly in the chapter on Environmental Policy and Environmental Protection Measures.

OTP Bank set up an ESG Steering Committee in 2020. The Committee is the governing body of ESG programmes and serves as a decision-making forum. It determines the objectives for these programmes, prioritises projects and allocates resources. The implementation of ESG programmes is supported by the Operational Committee, the Programme Management Team, the ESG team of experts and the Group Management Body.

OTP Bank is committed to ethical business conduct in all respects; our principles are set out in our Code of Ethics, which is binding for all our employees and agents. Our financial services and our operations have significant social and environmental impacts; our objective is to manage risks responsibly while taking advantage of opportunities and delivering positive outcomes.

### Providing responsible financial services and managing credit risk

Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group remains a high priority. Our Compliance Policy formulates our principles and guidelines for the fair treatment of customers, as well as our compliance with consumer protection requirements. We follow the principles of ethical product design when designing our products, and our New Product Policy requires – among other things – that we investigate any potential risks affecting consumers.

We fulfil our role as financial intermediary in a way that guarantees the security of our customers' savings throughout the entire process. Our rules ensure that we comply with the responsible lending standards concerning the prevention of excessive debt, the provision of fair, clear, comprehensive and easily visible information, and the recommendation of appropriate products.

We invest and lend the money deposited with us, ensuring that it will not serve illegal purposes, or those contrary to the values of society. OTP Bank will not finance

- customers whose financing is forbidden in international accords, EU acts or national laws;
- those whose activity is likely to violate public morals or social value systems, or is connected to crime;
- those who are connected, directly or indirectly, to criminal activities or to the deliberate violation or evasion of legal regulations;
- transactions classified as prohibited business sectors (e.g. the illegal arms trade, prohibited gambling, drug trade, or any other illegal activity);
- transactions that fail to meet environmental standards.

We ensure adherence to our principles, and maintain this balance through:

- our strict Risk Management Policy,
- our annually revised Lending Policy,
- our continuously developed credit approval system.

Our Lending Policy clearly defines the industries, business lines and activities where we pursue active business operations, as well as the areas where we do not wish to assume risks.

We offer our customers banking options to suit their individual needs, and provide our services with the highest standard of quality, while continuing to improve and innovate. While recommending and encouraging the use of online channels, we also kept most of our branches open during the pandemic, albeit with shorter hours. We took numerous protective measures to improve safety.

Our objective is to provide equal access for persons living with disability, through services adapted to their special needs, in line with the Accessibility Strategy of OTP Bank. Accessibility is integrated into our website, which supports one-handed use and provides accessibility options including text-to-speech software and video content transcripts. Physical accessibility was provided in all our branches but one[17] in 2020 as well.

[17] There is a single branch where accessibility cannot be implemented, due to the specific characteristics of its building and

Tactile guide strips are available in 41% of our branches. Our customers can request special-needs services at the queue management machine, with physical push buttons and tactile strips also assisting them in using the device. KONTAKT Interpreter Services are available at 166 branches; this is a service allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available (in 109 branches), while 25 of our high-traffic branches have employees who can serve customers using sign language. We have made text-to-speech software available on 765 of our ATMs.

OTP Bank's stated objective is to serve its customers without fault. In order to improve the satisfaction of our customers, we are also improving our complaint management practices on an ongoing basis. Our Complaint Management Policy, Complaint Management Regulation and a Glossary are available to view in our branches as well as on our website.

Complaints in 2020 tended to concern the major changes introduced last year, such as the statement of charges, sent to customers early in the year as per the Payment Accounts Directive; instant payments, once they had been introduced; and numerous customer queries and complaints regarding the payment holiday granted in the coronavirus pandemic. The number of complaints regarding card purchases was also high; some of those complaints were attributable to online fraud. Where errors or gaps were identified by the investigation into complaints, the responsible departments carried out the necessary improvements and developments.

| Customer complaint data, OTP Bank* | 2020 | 2019 |
|---|---|---|
| Number of warranted complaints | 202,040 | 125,242 |
| Ratio of warranted complaints | 67% | 66% |
| Compensation paid (HUF million) | 419 | 144 |

** Also includes OTP Lakástakarék and OTP Jelzálogbank data.*

We use TRI*M methodology to measure the satisfaction of our retail customers. OTP Bank's client retention power stood at 66 points in 2020, falling short of the level in the preceding six-month period. In order to understand this result, consideration must be given to the change in methodology (personal inquiry being replaced by sampling online and by telephone) and the impact of the pandemic, which also reduced the average value of the market as a whole. The average satisfaction score of banks in Central Europe was 71.

### Security and data protection

Security is a top concern for us. The principles and main guidelines concerning security at the bank are set forth in the Security Policy, which is approved by the Board of Directors. The Policy covers all aspects of security, including IT and cyber security, which have become increasingly important. The processing and protection of personal data is covered by the Compliance Policy, which is also approved by the Board of Directors. Both Policies prescribe the regular evaluation of risks, and the need for maintaining and enhancing awareness. The Deputy CEO responsible for the IT Division and the data protection officer (reporting directly to the top management of the data controller or the data processor and not accepting instructions from anyone regarding the discharging of duties) are responsible for data processing at the bank and the protection of customers' personal data.

Our 24/7 Security Operations Center (SOC) was put into operation in 2020 and provides continuous monitoring, detection and thus prompt alerts of IT security events. In 2020, we received hundreds of reports of phishing. Whenever an actual phishing event occurred, we had the phishing website blocked; where the incident was of greater magnitude, we informed our customers and employees as well. The Bank issued regular press releases on this subject. We took action several times against fraudulent websites and malware (a virus or link sent by email).

We prioritise raising awareness among our employees and customers. A full review and revision of the security awareness training materials for employees was completed in 2020. As a result of the pandemic, the heightened security of working from home was a priority during the year. We improved our employees' security awareness through in-house practices. Our awareness-raising programmes linked to the European Cybersecurity Month focused on the preparations for tackling phishing attempts. In addition, we compiled training materials for customers on how to avoid phishing and how to use smartphones safely.

No bank card information was leaked from OTP Bank's systems; data were only revealed by our customers in response to phishing. The continued low rate of bank card fraud demonstrates the effective operation of our systems. OTP Bank's percentage of fraud cases involving Bank-issued cards relative to turnover was significantly lower (0.0058%) than the European average published by MasterCard (0.0378%). We prevented losses from fraud in the amount of HUF 2.1 billion.

environment.

Suspected money laundering was reported 262 times during the year. Expected loss from financial fraud amounted to HUF 680 million, while losses prevented to HUF 138 billion; expected loss relating to branches, ATM equipment and facilities and equipment to HUF 6 million, with prevented losses amounting to HUF 65 million.

### Fight against corruption and against the practice of bribery

The Code of Ethics and the Anti-Corruption Policy of OTP Bank contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf, https://www.otpbank.hu/static/portal/sw/file/OTP_Korrupcioellenes_Politika_202007.pdf). As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 23 reports were received in 2020, 5 of them was reclassified as complaints and 3 case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Any requests from third parties affecting human rights are treated by the Bank as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Management Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

### Citizenship

As one of the most generous charitable donors in Hungary, OTP Bank gave a total of HUF 3.7 billion in charitable donations. Playing an active role in managing the hardship generated by the coronavirus pandemic was a priority for us in 2020. Our Bank gave HUF 1.7 billion in donations to healthcare institutions, financing the acquisition of medical devices at several hospitals, including some operating in disadvantaged areas of the country; we also handed out 20 ventilators as donations in kind.

We aim to provide genuine and effective help by supporting programmes and causes that serve the interests of society. We cooperate with a number of local non-governmental organisations, concentrating our donated funds and monitoring their usage and the results achieved. Besides our support to the healthcare sector, our efforts were focused on the following areas:

- developing financial literacy, attitude-shaping;
- sponsoring culture and the arts: creating and preserving values;
- equal opportunities: helping the disadvantaged and those in need;
- sports.

During the pandemic, only a limited set of our voluntary programmes remained possible; in 2020 1,400 employees spent 5,500 hours doing voluntary work.

The Humanitas Social Foundation supports vulnerable communities and individuals with a focus on healthcare and education; donation recipients are selected through an application process. Its most important activity in 2020 involved priority support to hospitals.

The OTP Fáy András Foundation provides financial and economic education services, a key element of which is operating the OK Educational and Innovation Centre. The activities of the Foundation in 2020 were determined mostly by the coronavirus pandemic and the refurbishment of the educational centre in Budapest, which had been started in 2019. 2,212 persons attended classroom training, instead of which

emphasis shifted to digital education programmes. The Fáy digital educational programme was created for students in Years 5 to 12 and comprises live presentations, online videos, e-learning materials and a games app. The learning materials produced during the year were used by 2,000 students by the end of the year, while the games app (Platypus: A Finlit Story) had over 30 thousand downloads. The app is available without any limitations and free of charge even outside the school context. Four age-specific outdoor training programmes, each two hours long, were developed to meet the needs of schools. During the year, the Centre also ran a regional educational programme as well as summer camps, and also developed adult educational materials. In order to shape social attitudes and raise awareness, three short films were broadcast 800 times on national commercial channels; these films touched on the subjects of self-provision, digital banking solutions and consumer empowerment. The refurbishment of the OK Educational and Innovation Centre was completed, ensuring that the Foundation can deliver its educational programmes with even greater capacities and relying on an even more modern infrastructure.

Our aim with the short film Keep it in the Family! was also to improve financial literacy and shape attitudes; in this film, two sets of parents and children spoke about money and their relationship with it. The video is available online and has been viewed more than 400,000 times. We also joined the “Life without Leftovers!” campaign of the Hungarian Food Bank Association, which encourages reducing food waste.

### Responsible employment

Our employees play a key role in OTP Bank’s success. The pandemic has forced us to adopt unprecedented measures to protect the safety of our employees. We created the conditions for work from home for thousands of our employees within a short timeframe, and introduced emergency measures relating to working on site in our offices. We also helped our employees recharge their emotional, mental and physical batteries in these difficult working conditions.

| OTP Bank’s employees (31 December) | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Total | Men | Women | Total | Men | Women |
| Employees, total (individuals) | 9,826 | 3,402 | 6,424 | 9,318 | 2,975 | 6,343 |
| Distribution by gender | 100% | 34.6% | 65.4% | 100% | 31.9% | 68.1% |
| Turnover rate[1] | 10.5% | 9.3% | 11.2% | 13.0% | 13.2% | 12.8% |

*[1] Compared to the end-of-year headcount; includes termination of employment both by employee and by employer, as well as retirement.*

The central objective of our human resource strategy is to intensify employee experience and commitment. Development projects furthering the achievement of the goals set in accordance with predefined priorities were implemented in 2020, supporting, among others, a consistent and relevant management development process, talent and succession planning with talent identification and selection and the measurement of competencies along consistent principles, and also the development of performance management, with clear targets and continuous feedback. The growth and development of our employees is a priority for us. All our employees attend professional training courses and competency development, based on their performance assessments.

Ethical conduct and compliance with the law remain core principles in our human resource management as well. OTP Bank analyses and manages the risks pertaining to employment within its operational risk management process. The interests of our employees are represented by their trade union, with a Collective Agreement setting out the rights and obligations of every employee.

In our Code of Ethics, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executive officers and employees, including the prohibition of discrimination and harassment. We consistently apply the principle of “equal pay for equal work”, including providing equal pay to men and women for the same position and performance. Within the objective limitations of specific job descriptions, we allow for flexible working hours and part-time employment options. We encourage healthy lifestyle choices, offering a complex health insurance package, and subsidising recreation and sports activities.

We regularly measure employee satisfaction. In 2020, we surveyed head office employees to find out their experience of the pandemic. The employees judged the Bank’s performance as very good, both in terms of how efficiently we were dealing with the situation (96%) and how we communicated (90%). As a pilot, we measured engagement within a certain subset of our staff. The 86% engagement score is high, even in comparison with the international benchmarks.

### Short description of the business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large

corporate, as well as municipality clients through both its branch network and its steadily developing digital channels. The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

### Non-financial performance indicators

- Internal audit: 181 closed investigations, 1,127 proposals, 1,126 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 72 yes, 0 no;
- Compliance: 19 closed consumer protection related investigations, 4,838 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 680 million, prevented damages: HUF 813 million; reported criminal charges on suspicion of money laundering: 471; the ratio of bank card abuses 0.0058% which is better than the European average (European average 0.0378%, world average 0.0679%);
- Ethics issues: 23 ethics reports, establishing ethics offense in 3 cases.

## *LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK*

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Issue of Comfort letters;
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400);
- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000);
- Engagements carried out according to standards on review engagements (ISRE 2400, 2410).

# SUPPLEMENTARY DATA

## FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

*General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.*

(1) Aggregated adjusted after tax profit of OTP Core and foreign banks.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd, OTP Building Society Ltd, OTP Factoring Ltd, OTP Financial Point Ltd., and companies providing intragroup financing; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017 (from 1Q 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from 1Q 2019; OTP eBIZ Ltd. was included from 1Q 2020. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) The result and balance sheet of OTP Factoring Bulgaria EAD is included. From 1Q 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation. From 1Q 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included.

(4) From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing d.d. and SB Leasing d.o.o. was included. In February 2020 the company name of OTP banka Hrvatska dioničko društvo was changed to OTP banka dioničko društvo.

(5) The financial performance of OTP Factoring Serbia d.o.o is included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Lizing d.o.o and OTP Services d.o.o. was included. The balance sheet of the newly acquired OTP banka Srbija was included in 3Q 2019, its P&L from 4Q 2019.

(6) The statement of recognised income and balance sheet of OTP Faktoring SRL was included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing Romania IFN S.A. was included.

(7) Figures are based on the aggregated financial statements of OTP Bank JSC, LLC OTP Leasing Ukraine, and OTP Factoring Ukraine LLC.

(8) The statement of recognised income and balance sheet of LLC MFO "OTP Finance" is included in the Russian performance.

(9) From 3Q 2019 the statement of recognised income and balance sheet of Podgoricka banka was included.

(10) P&L data and related indicators are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund. Including the financial performance of OTP Faktoring Slovensko s.r.o. The sale of the Slovakian subsidiary was concluded at the end of November 2020.

(11) Until the end of 2019 the after tax profit of Merkantil Bank without dividends, net cash transfer and other adjustment items, since 1Q 2020 the sub-consolidated after tax profit of Merkantil Group (Merkantil Bank Ltd., Merkantil Bérlet Ltd., OTP Real Estate Leasing Ltd., NIMO 2002 Ltd., SPLC-P Ltd., SPLC Ltd.) was presented.

(12) LLC AMC OTP Capital, OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(13) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia), OTP Solution Fund (Ukraine).

(14) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes issued by OTP Bank. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

(15) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(16) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries.

## CALCULATION OF THE ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS, AS WELL AS THE ADJUSTED BALANCE SHEET LINES PRESENTED IN THE BUSINESS REPORT, AND THE METHODOLOGY FOR CALCULATING THE FX-ADJUSTED VOLUME CHANGES

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Supplementary Data section.

Adjustments affecting the income statement:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Recognised Income. The following adjustment items emerged in the period under review and the previous year: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, and the one-off impact of regulatory changes related to FX consumer contracts in Serbia.

  Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. Within banking taxes, the special tax booked by the Romanian subsidiary was also included in 4Q 2019.

- Until 4Q 2017 other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of *Provision for impairment on loan and placement losses* line in the income statement. Starting from 1Q 2018 this income from the release of pre-acquisition provisions was presented amongst the *Provision for impairment on loan and placement losses* line both in the accounting and adjusted P&L structure.

- In 4Q 2019 the following items have been moved from the Other operating expenses line among the Net interest income after loss allowance, impairment and provisions line: *Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost*, *Provision for commitments and guarantees given*, *Release of impairment of assets subject to operating lease and of investment properties*. In the adjusted P&L structure these items are presented amongst the *Other provisions (adj.)* line (through the *Structural correction between Provision for loan losses and Other provisions* adjustment line).

- Other non-interest income is shown together with Gains and losses on real estate transactions, Net insurance result, Gains and losses on derivative instruments, and Gains and losses on non-trading securities mandatorily at fair value through profit or loss lines in 2019, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.

- OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. In the addition to this, OTP Bank has changed the way how private equity funds managed by PortfoLion are recorded. As a result of this, as opposed to the previous method of recording the funds at book value (initial book value less impairments), starting from 3Q 2019 the funds are evaluated based on their net asset value. The change in the carrying value was reclassified to the Net other non-interest result (adj.) without one-offs line in the adjusted P&L structure. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.

- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.

- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers (except for movie subsidies and cash transfers to public benefit organisations, whereas from 2019 certain part of cash transfers to public benefit organizations was presented amongst net fees and commissions), Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.

- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.

- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the financial transaction tax and/or Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line.
- Due to the introduction of IFRS16 from 2019, certain items previously presented on the Other non-interest expenses line (rental fees) were moved to the interest expenses and depreciation lines in the accounting income statement. These items were shifted back to the Other non-interest expenses line in the adjusted P&L structure.
- Staring from 2020 the currency exchange result was shifted in the accounting P&L structure from the FX result to the net fees and commissions line, retroactively for the 2019 base period as well. In the adjusted P&L structure this
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated).
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown, as well as the FX-adjusted stock of allowances for loan losses are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier. Regarding the FX-adjusted volume change of DPD90+ loans (adjusted for sales and write-offs), instead of the previously applied 3Q 2009 FX rates, from 4Q 2020 onwards the actual end of period FX rates are used for calculating the FX-adjusted figures.

Adjustments affecting the balance sheet:

- On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 and 9M 2020 balance sheet (there was no change in the 2018 closing balance sheet structure, whereas by the end of 4Q 2020 the Slovakian entity was deconsolidated). As for the consolidated accounting income statement, the Slovakian contribution for 2018, 2019 and 2020 (in 2020 the January-October contribution was consolidated) was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in the Stock Exchange Report incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management.
- At the end of 2020, OTP Osiguranje d.d. was presented as asset classified as held for sale in the accounting financial statements. Accordingly, its assets and liabilities were shown on a separate line in the consolidated balance sheet. Regarding the 2020 accounting statement of recognized income, the entity's annual result was presented on the *Gains from held for trading operations* line, therefore the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from this entity. As opposed to this, the adjusted financial statements presented in the Stock Exchange Report incorporated the company's balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management.
- Finance lease receivables – earlier presented within customer loans – are shown on a separate line in the accounting balance sheet from 2019. As for the adjusted balance sheet, net customer loans continue to include the stock of finance lease receivables.
- In the adjusted balance sheets presented in the analytical section of the report, the total amount of accrued interest receivables related to Stage 3 loans under IFRS 9 were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

## ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

| | 2020 HUF million | 2019 HUF million |
|---|---|---|
| **Net interest income** | **782,671** | **699,041** |
| (-) Revaluation result of FX provisions | (57) | 30 |
| (+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | 337 | 76 |
| (-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB | 5,951 | 3,135 |
| (-) Effect of acquisitions | (600) | 1,583 |
| (-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals | 0 | 0 |
| (-) Reclassification due to the introduction of IFRS16 | (1,623) | (1,652) |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | (1,535) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 8,755 | 10,733 |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 15 | |
| (-) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | | 1,992 |
| **Net interest income (adj.)** | **788,079** | **706,298** |
| | | |
| **Net fees and commissions** | **397,633** | **374,180** |
| (+) Financial Transaction Tax | (61,588) | (61,920) |
| (-) Effect of acquisitions | (145) | (42) |
| (+) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line | 0 | 0 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | (30) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3,210 | 3,906 |
| (-) Structural shift of income from currency exchange from net fees to the FX result | 46,290 | 33,736 |
| **Net fees and commissions (adj.)** | **293,112** | **282,504** |
| | | |
| **Foreign exchange result** | **7,864** | **5,734** |
| (-) Revaluation result of FX positions hedging the revaluation of FX provisions | 11,195 | (5,166) |
| (-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | (1,964) | (477) |
| (-) Effect of acquisitions | 0 | 1 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3 | 66 |
| (+) Structural shift of income from currency exchange from net fees to the FX result | 46,290 | 33,736 |
| **Foreign exchange result (adj.)** | **44,927** | **45,177** |
| | | |
| **Gain/loss on securities, net** | **16,106** | **11,611** |
| (-) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019 until 4Q 2019 | - | 1,914 |
| (-) Effect of acquisitions | (98) | |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 349 | |
| **Gain/loss on securities, net (adj.) with one-offs** | **16,553** | **9,697** |
| (-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core) | 2,360 | (2,675) |
| **Gain/loss on securities, net (adj.) without one-offs** | **14,193** | **12,373** |
| | | |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale** | **5,590** | **(4,668)** |
| (-) Effect of acquisitions | 7,496 | (6,037) |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale (adj.)** | **(1,907)** | **1,369** |
| | | |
| **Gains and losses on real estate transactions** | **3,631** | **8,231** |
| **Result of discontinued operation and gains from disposal of subsidiaries classified as held for sale (adj.)** | **(1,907)** | **1,369** |
| **(+) Other non-interest income** | **29,109** | **102,015** |
| **(+) Gains and losses on derivative instruments** | **11,339** | **1,048** |
| **(+) Net insurance result** | **721** | **849** |
| **(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost** | **(2,396)** | **(849)** |
| (-) Received cash transfers | 65 | 174 |
| (+) Other other non-interest expenses | (5,800) | (6,778) |
| (+) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion | 128 | 1,862 |
| (-) Investment impairment in relation to the sale of Express Life Bulgaria (presented on the *Goodwill/investment impairment charges* adjustment line on consolidated level) | 0 | (163) |
| (-) Effect of acquisitions | 7,264 | 79,538 |
| (-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations | 2,301 | 553 |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | (226) | (277) |
| (-) Impact of fines imposed by the Hungarian Competition Authority | 823 | 0 |
| (-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania | (216) | (483) |
| (+) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019 until 4Q 2019 | - | 1,914 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 3,149 | (1,072) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | (1,646) | |
| (+) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | | 2,131 |
| **Net other non-interest result (adj.) with one-offs** | **29,610** | **31,376** |
| (-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre) | 0 | 0 |
| **Net other non-interest result (adj.) without one-offs** | **29,610** | **31,376** |

| | 2020 HUF million | 2019 HUF million |
|---|---|---|
| **Provision for impairment on loan and placement losses** | **(200,315)** | **(44,605)** |
| **(+) Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss** | **(3,262)** | **(4,376)** |
| **(+) Loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost** | **(7,309)** | **9** |
| **(+) Provision for commitments and guarantees given** | **(8,662)** | **(7,995)** |
| **(+) Impairment of assets subject to operating lease and of investment properties** | **877** | **280** |
| (+) Non-interest income from the release of pre-acquisition provisions | - | - |
| (-) Revaluation result of FX provisions | (10,997) | 5,176 |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | 459 | 263 |
| (+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB | 5,951 | 3,135 |
| (-) Effect of acquisitions | (2,149) | (19,868) |
| (-) One-off impact of regulatory changes related to FX consumer contracts in Serbia | 0 | (2,127) |
| (-) Structural correction between Provision for loan losses and Other provisions | (15,094) | (7,705) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (3,024) | (46) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | (29,543) | |
| (-) Adjustment in 2019 due to the reclassification of amounts related to mandatorily measured at fair value through profit or loss | - | 139 |
| **Provision for impairment on loan and placement losses (adj.)** | **(158,421)** | **(29,474)** |
| **Dividend income** | **527** | **7,955** |
| (+) Received cash transfers | 65 | 174 |
| (+) Paid cash transfers | (12,768) | (13,195) |
| (-) Sponsorships, subsidies and cash transfers to public benefit organisations | (12,508) | (13,139) |
| (-) Dividend income of swap counterparty shares kept under the treasury share swap agreement | 0 | 5,710 |
| (-) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion | 128 | 1,862 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | 8 | 3 |
| **After tax dividends and net cash transfers** | **213** | **505** |
| **Depreciation and goodwill impairment charges** | **(92,762)** | **(81,935)** |
| (-) Goodwill impairment charges | 0 | (4,887) |
| (-) Effect of acquisitions | (7,415) | (7,881) |
| (-) Reclassification due to the introduction of IFRS16 | (16,447) | (14,280) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (1,385) | (1,495) |
| **Depreciation (adj.)** | **(70,286)** | **(56,383)** |
| **Personnel expenses** | **(308,643)** | **(276,755)** |
| (-) Effect of acquisitions | (2,785) | (3,777) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (6,638) | (7,024) |
| **Personnel expenses (adj.)** | **(312,495)** | **(280,002)** |
| **Income taxes** | **(27,376)** | **(49,902)** |
| (-) Corporate tax impact of goodwill/investment impairment charges | 886 | (3,378) |
| (-) Corporate tax impact of the special tax on financial institutions | 1,773 | 1,623 |
| (+) Tax deductible transfers (offset against corporate taxes) | (8,083) | (3,802) |
| (-) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority | (74) | 0 |
| (-) Corporate tax impact of the effect of acquisitions | 497 | (5,713) |
| (-) Corporate tax impact of the one-off impact of regulatory changes related to FX consumer contracts in Serbia | 0 | 483 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 (corporate tax impact) | 0 | 146 |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (80) | (56) |
| (-) Corporate tax impact of the expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 2,913 | |
| **Corporate income tax (adj.)** | **(41,534)** | **(46,921)** |
| **Other operating expense** | **(39,447)** | **(44,758)** |
| (-) Other costs and expenses | (7,506) | (9,172) |
| (-) Other non-interest expenses | (18,568) | (19,973) |
| (-) Effect of acquisitions | 1,022 | (7,575) |
| (-) Revaluation result of FX provisions | (141) | (40) |
| (-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania | (233) | 14 |
| (-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania | 216 | 483 |
| (-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 | 0 | 1,420 |
| (+) Structural correction between *Provision for loan losses* and *Other provisions* | (15,094) | (7,705) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (243) | (12) |
| (-) Expected one-off negative effect of the debt repayment moratorium in Hungary and Serbia | 0 | |
| **Other provisions (adj.)** | **(29,574)** | **(17,633)** |
| **Other general expenses** | **(306,263)** | **(282,528)** |
| (+) Other costs and expenses | (7,506) | (9,172) |
| (+) Other non-interest expenses | (18,568) | (19,973) |
| (-) Paid cash transfers | (12,768) | (13,195) |
| (+) Film subsidies and cash transfers to public benefit organisations | (12,508) | (13,139) |
| (-) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line | 0 | 0 |
| (-) Other other non-interest expenses | (5,800) | (6,778) |
| (-) Special tax on financial institutions (recognised as other administrative expenses) | (19,138) | (17,792) |
| (-) Tax deductible transfers (offset against corporate taxes) | (8,083) | (3,802) |
| (-) Financial Transaction Tax | (61,588) | (61,920) |
| (-) Effect of acquisitions | (9,940) | (10,963) |
| (+) Reclassification due to the introduction of IFRS16 | (18,069) | (15,933) |
| (+) Presentation of the contribution from discontinued operation on the adjusted P&L lines | (4,105) | (5,003) |
| **Other non-interest expenses (adj.)** | **(249,702)** | **(231,298)** |

## ADJUSTMENTS OF CONSOLIDATED IFRS BALANCE SHEET LINES

| | 2020<br>HUF million | 2019<br>HUF million |
|---|---|---|
| **Cash, amounts due from Banks and balances with the National Banks** | 2,432,312 | 1,784,378 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 3 | 57,586 |
| **Cash, amounts due from Banks and balances with the National Banks (adjusted)** | 2,432,314 | 1,841,963 |
| | | |
| **Placements with other banks, net of allowance for placement losses (including net repo receivables in 2019)** | 1,148,744 | 410,078 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 244 | 354 |
| **Placements with other banks, net of allowance for placement losses (adjusted)** | 1,148,987 | 410,433 |
| | | |
| **Financial assets at fair value through profit or loss** | 234,006 | 251,991 |
| (+) Allocation of Assets classified as held for sale among balance sheet lines | 1,188 | |
| **Financial assets at fair value through profit or loss (adjusted)** | 235,194 | 251,991 |
| | | |
| **Securities at fair value through other comprehensive income** | 2,136,709 | 2,426,779 |
| (+) Allocation of Assets classified as held for sale among balance sheet lines | 3,410 | 759 |
| **Securities at fair value through other comprehensive income (adjusted)** | 2,140,118 | 2,427,537 |
| | | |
| **Gross customer loans (incl. loans at amortized cost and loans mandatorily at fair value through profit or loss) (incl. accrued interest receivables related to loans)** | 13,326,189 | 11,603,116 |
| **Gross finance lease receivables** | 1,075,742 | 982,853 |
| **Gross customer loans (incl. finance lease receivables and accrued interest receivables related to loans)** | 14,401,930 | 12,585,969 |
| (-) Accrued interest receivables related to DPD90+ / Stage 3 loans | 38,650 | 35,450 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 0 | 391,490 |
| **Gross customer loans (adjusted)** | 14,363,281 | 12,942,009 |
| | | |
| **Allowances for loan losses (incl. impairment of finance lease receivables)** | (873,344) | (706,907) |
| (-) Allocated provision on accrued interest receivables related to DPD90+ / Stage 3 loans | (38,650) | (35,450) |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 0 | (23,033) |
| **Allowances for loan losses (adjusted)** | (834,695) | (694,490) |
| | | |
| **Securities at amortized costs** | 2,624,921 | 1,968,072 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 1,031 | 27,555 |
| **Securities at amortized costs (adjusted)** | 2,625,952 | 1,995,627 |
| | | |
| **Tangible and intangible assets, net** | 589,743 | 595,128 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | 135 | 10,545 |
| **Tangible and intangible assets, net (adjusted)** | 589,878 | 605,673 |
| | | |
| **Other assets (including net repo receivables in 2020)** | 588,378 | 785,456 |
| (+) Allocation of *Assets classified as held for sale* among balance sheet lines | (6,010) | (465,255) |
| **Other assets (adjusted)** | 582,368 | 320,201 |
| | | |
| **Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss (including repo liabilities in 2019)** | 1,219,446 | 844,261 |
| (+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines | 0 | 1,898 |
| **Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss (adjusted)** | 1,219,446 | 846,158 |
| | | |
| **Deposits from customers** | 17,890,863 | 15,171,308 |
| (+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines | 0 | 351,346 |
| **Deposits from customers (adjusted)** | 17,890,863 | 15,522,654 |
| | | |
| **Other liabilities (including repo liabilities in 2020)** | 949,502 | 1,171,805 |
| (+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines | 0 | (353,244) |
| **Other liabilities (adjusted)** | 949,502 | 818,561 |
| | | |
| **Subordinated bonds and loans** | 274,704 | 249,938 |
| (+) Allocation of Liabilities directly associated with assets classified as held-for-sale among balance sheet lines | 0 | |
| **Subordinated bonds and loans (adjusted)** | 274,704 | 249,938 |

## STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| **NET INTEREST INCOME** | **221,666** | **204,512** | **8** |
| **Interest incomes and similar to interest incomes** | **321,296** | **323,896** | **(1)** |
| **Interest expenses total** | **(99,630)** | **(119,384)** | **(17)** |
| **Risk cost total** | **(66,765)** | **(39,881)** | **67** |
| Loss allowance on loan, placement and repo receivables losses | (61,310) | (29,056) | 111 |
| Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost | (1,848) | 401 | (561) |
| Provision for loan commitments and financial guarantees given | (3,202) | (5,794) | (45) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | (405) | (5,432) | (93) |
| **NET INTEREST INCOME AFTER RISK COST** | **154,901** | **164,631** | **(6)** |
| **MODIFICATION LOSS** | **(17,358)** | **-** | |
| **NET PROFIT FROM FEES AND COMMISSIONS** | **219,031** | **213,363** | **3** |
| **Income from fees and commissions** | **259,781** | **248,954** | **4** |
| **Expenses from fees and commissions** | **(40,750)** | **(35,591)** | **14** |
| **NET OPERATING INCOME** | **60,632** | **130,358** | **(53)** |
| Foreign exchange (losses) and gains | (4,518) | 3,288 | (237) |
| Gains on securities, net | 17,955 | 8,188 | 119 |
| *from this: gain from derecognition of securities at amortised cost* | 360 | 714 | (50) |
| Gains on financial instruments at fair value through profit or loss | (671) | 1,260 | (153) |
| Gains on deivative instruments, net | 7,057 | 4,715 | 50 |
| Dividend income | 60,973 | 78,887 | (23) |
| Other operating income | 7,900 | 7,505 | 5 |
| Other operating expenses | (28,064) | 26,515 | (206) |
| **OTHER ADMINISTRATIVE EXPENSES** | **(323,960)** | **(305,158)** | **6** |
| Personnel expenses | (118,498) | (115,035) | 3 |
| Depreciation and amortization | (38,948) | (29,925) | 30 |
| Other general expenses | (166,514) | (160,198) | 4 |
| **PROFIT BEFORE INCOME TAX** | **93,246** | **203,194** | **(54)** |
| Income tax | (772) | (9,840) | (92) |
| **NET PROFIT FOR THE YEAR** | **92,474** | **193,354** | **(52)** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 579,120 | 289,686 | 100 |
| Placements with other banks, net of allowance for placement losses | 1,535,884 | 1,560,142 | (2) |
| Repo receivables | 183,364 | 45,539 | 303 |
| Financial assets at fair value through profit or loss | 160,483 | 172,229 | (7) |
| Financial assets at fair value through other comprehensive income | 911,950 | 1,485,977 | (39) |
| Securities at amortised cost | 2,007,692 | 1,447,224 | 39 |
| Loans at amortised cost and mandatorily measured at fair value through profit or loss | 3,898,697 | 3,315,069 | 18 |
| Investments in subsidiaries | 1,548,972 | 1,542,538 | 0 |
| Property and equipment | 77,974 | 77,754 | 0 |
| Intangible assets | 57,639 | 53,282 | 8 |
| Right of use assets | 13,479 | 13,607 | (1) |
| Investments properties | 1,936 | 2,381 | (19) |
| Current tax assets | 593 | - | |
| Derivative financial assets designated as hedge accounting relationships | 6,817 | 16,677 | (59) |
| Other assets | 169,794 | 116,699 | 45 |
| **TOTAL ASSETS** | **11,154,394** | **10,138,804** | **10** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 766,977 | 738,054 | 4 |
| Repo liabilities | 109,612 | 462,621 | (76) |
| Deposits from customers | 7,895,735 | 6,573,550 | 20 |
| Leasing liabilities | 14,106 | 13,660 | 3 |
| Liabilities from issued securities | 28,435 | 43,284 | (34) |
| Financial liabilities at fair value through profit or loss | 25,902 | 28,861 | (10) |
| Derivative financial liabilities designated as held for trading | 99,987 | 83,088 | 20 |
| Derivative financial liabilities designated as hedge accounting relationships | 3,104 | 10,023 | (69) |
| Deferred tax liabilities | 3,062 | 5,875 | (48) |
| Current tax liabilities | - | 2,896 | |
| Other liabilities | 224,897 | 243,780 | (8) |
| Subordinated bonds and loans | 304,243 | 279,394 | 9 |
| **TOTAL LIABILITIES** | **9,476,060** | **8,485,086** | **12** |
| Share capital | 28,000 | 28,000 | 0 |
| Retained earnings and reserves | 1,697,133 | 1,628,354 | 4 |
| Treasury shares | (46,799) | (2,636) | |
| **TOTAL SHAREHOLDERS' EQUITY** | **1,678,334** | **1,653,718** | **1** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **11,154,394** | **10,138,804** | **10** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Interest income calculated using the effective interest method | 841,901 | 762,639 | 10 |
| Income similar to interest income | 135,986 | 133,497 | 2 |
| Interest incomes | 977,887 | 896,136 | 9 |
| Interest expenses | (195,216) | (197,095) | (1) |
| **NET INTEREST INCOME** | **782,671** | **699,041** | **12** |
| **Risk cost total** | **(218,670)** | **(56,687)** | **286** |
| Loss allowance / Release of loss allowance on loans, placements and repo receivables | (200,315) | (44,605) | 349 |
| Loss allowance / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost | (3,262) | (4,376) | (25) |
| Loss allowance / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost | (7,309) | 9 | |
| Provision for commitments and guarantees given | (8,662) | (7,995) | 8 |
| Impairment / (Release of impairment) of assets subject to operating lease and of investment properties | 878 | 280 | 214 |
| **NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS** | **564,001** | **642,354** | **(12)** |
| Income from fees and commissions | 486,529 | 447,084 | 9 |
| Expense from fees and commissions | (88,896) | (72,903) | 22 |
| **Net profit from fees and commissions** | **397,633** | **374,181** | **6** |
| Foreign exchange gains / losses, net | 19,204 | 6,782 | 183 |
| Foreign exchange result | 7,864 | 5,734 | 37 |
| Gains and losses on derivative instruments | 11,339 | 1,048 | 982 |
| Gains / Losses on securities, net | 16,106 | 11,611 | 39 |
| Gains / Losses on financial assets /liabilities measured at fair value through profit or loss | (2,396) | (849) | 182 |
| Dividend income and gain / loss from associated companies | 527 | 7,955 | (93) |
| Other operating income | 33,461 | 111,093 | (70) |
| Gains and losses on real estate transactions | 3,631 | 8,231 | (56) |
| Other non-interest income | 29,109 | 102,015 | (71) |
| Net insurance result | 721 | 849 | (15) |
| Other operating expense | (39,447) | (44,758) | (12) |
| **Net operating income** | **27,455** | **91,834** | **(70)** |
| Personnel expenses | (308,642) | (276,754) | 12 |
| Depreciation and amortization | (92,761) | (77,048) | 20 |
| Goodwill impairment | 0 | (4,887) | (100) |
| Other general expenses | (306,264) | (282,528) | 8 |
| **Other administrative expenses** | **(707,667)** | **(641,217)** | **10** |
| **PROFIT BEFORE INCOME TAX** | **281,422** | **467,152** | **(40)** |
| Income tax expense | (27,376) | (49,902) | (45) |
| **NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **254,046** | **417,250** | **(39)** |
| From this, attributable to: | | | |
| Non-controlling interest | 220 | 341 | (35) |
| Owners of the company | 253,826 | 416,909 | (39) |
| **DISCONTINUED OPERATIONS** | | | |
| Gains from disposal of subsidiaries classified as held for sale | 199 | 0 | |
| Loss from discontinued operation | 5,391 | (4,668) | (215) |
| **PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION** | **259,636** | **412,582** | **(37)** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

## STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

| | 2020 HUF million | 2019 HUF million | Change % |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2,432,312 | 1,784,378 | 36 |
| Placements with other banks, net of loss allowance for placements | 1,148,743 | 342,922 | 235 |
| Repo receivables | 190,849 | 67,157 | 184 |
| Financial assets at fair value through profit or loss | 234,007 | 251,990 | (7) |
| Securities at fair value through other comprehensive income | 2,136,709 | 2,426,779 | (12) |
| Loans at amortized cost and mandatorily at fair value through profit or loss | 12,477,447 | 10,909,799 | 14 |
| Finance lease receivables | 1,051,140 | 969,263 | 8 |
| Associates and other investments | 52,443 | 20,822 | 152 |
| Securities at amortized cost | 2,624,920 | 1,968,072 | 33 |
| Property and equipment | 322,766 | 320,430 | 1 |
| Intangible assets and goodwill | 239,004 | 242,219 | (1) |
| Right-of-use assets | 46,283 | 52,950 | (13) |
| Investment properties | 38,601 | 41,560 | (7) |
| Derivative financial assets designated as hedge accounting | 6,820 | 7,463 | (9) |
| Deferred tax assets | 22,317 | 26,543 | (16) |
| Current income tax receivable | 38,936 | 12,769 | 205 |
| Other assets | 266,474 | 214,580 | 24 |
| Assets classified as held-for-sale | 6,070 | 462,071 | (99) |
| **TOTAL ASSETS** | **23,335,841** | **20,121,767** | **16** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 1,185,315 | 812,911 | 46 |
| Repo liabilities | 117,991 | 488 | |
| Financial liabilities at fair value through profit or loss | 34,131 | 30,862 | 11 |
| Deposits from customers | 17,890,863 | 15,171,308 | 18 |
| Liabilities from issued securities | 464,213 | 393,167 | 18 |
| Derivative financial liabilities held for trading | 104,823 | 86,743 | 21 |
| Derivative financial liabilities designated as hedge accounting | 11,341 | 10,709 | 6 |
| Leasing liabilities | 48,451 | 54,194 | (11) |
| Deferred tax liabilities | 25,990 | 29,195 | (11) |
| Current income tax payable | 27,684 | 35,928 | (23) |
| Other liabilities | 607,737 | 592,540 | 3 |
| Subordinated bonds and loans | 274,704 | 249,938 | 10 |
| Liabilities directly associated with assets classified as held-for-sale | 5,486 | 362,496 | (98) |
| **TOTAL LIABILITIES** | **20,798,729** | **17,830,479** | **17** |
| Share capital | 28,000 | 28,000 | 0 |
| Retained earnings and reserves | 2,629,076 | 2,319,263 | 13 |
| Treasury shares | (124,080) | (60,931) | 104 |
| Non-controlling interest | 4,116 | 4,956 | (17) |
| **TOTAL SHAREHOLDERS' EQUITY** | **2,537,112** | **2,291,288** | **11** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **23,335,841** | **20,121,767** | **16** |

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Annual Report (certain rows might be merged or represent different level of aggregation).

# FINANCIAL STATEMENTS ON 2020

## IFRS (SEPARATE)

**OTP BANK PLC.**
**SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020**
**(in HUF mn)**

| | Note | 2020 | 2019 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 5. | 579,120 | 289,686 |
| Placements with other banks, net of allowance for placement losses | 6. | 1,535,884 | 1,560,142 |
| Repo receivables | 7. | 183,364 | 45,539 |
| Financial assets at fair value through profit or loss | 8. | 160,483 | 172,229 |
| Financial assets at fair value through other comprehensive income | 9. | 911,950 | 1,485,977 |
| Securities at amortised cost | 12. | 2,007,692 | 1,447,224 |
| Loans at amortised cost and mandatorily measured at fair value through profit or loss | 10. | 3,898,697 | 3,315,069 |
| Investments in subsidiaries | 11. | 1,548,972 | 1,542,538 |
| Property and equipment | 13. | 77,974 | 77,754 |
| Intangible assets | 13. | 57,639 | 53,282 |
| Right of use assets | 34. | 13,479 | 13,607 |
| Investments properties | 14. | 1,936 | 2,381 |
| Current tax assets | | 593 | - |
| Derivative financial assets designated as hedge accounting relationships | 15. | 6,817 | 16,677 |
| Other assets | 16. | 169,794 | 116,699 |
| **TOTAL ASSETS** | | **11,154,394** | **10,138,804** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 17. | 766,977 | 738,054 |
| Repo liabilities | 18. | 109,612 | 462,621 |
| Deposits from customers | 19. | 7,895,735 | 6,573,550 |
| Leasing liabilities | | 14,106 | 13,660 |
| Liabilities from issued securities | 20. | 28,435 | 43,284 |
| Financial liabilities at fair value through profit or loss | 21. | 25,902 | 28,861 |
| Derivative financial liabilities designated as held for trading | 22. | 99,987 | 83,088 |
| Derivative financial liabilities designated as hedge accounting relationships | 23. | 3,104 | 10,023 |
| Deferred tax liabilities | 33. | 3,062 | 5,875 |
| Current tax liabilities | 24. | - | 2,896 |
| Other liabilities | 24. | 224,897 | 243,780 |
| Subordinated bonds and loans | 25. | 304,243 | 279,394 |
| **TOTAL LIABILITIES** | | **9,476,060** | **8,485,086** |
| Share capital | 26. | 28,000 | 28,000 |
| Retained earnings and reserves | 27. | 1,697,133 | 1,628,354 |
| Treasury shares | 28. | (46,799) | (2,636) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,678,334** | **1,653,718** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **11,154,394** | **10,138,804** |

Budapest, 17 March 2021

OTP BANK Nyrt. 1. elnök-vezérigazgató

.....
Dr. Sándor Csányi
Chairman and Chief Executive Officer

**OTP BANK PLC.**
**SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020 (in HUF mn)**

| | Note | 2020 | 2019 |
|---|---|---|---|
| Interest income calculated using the effective interest method | 29. | 239,633 | 235,679 |
| Income similar to interest income | 29. | 81,663 | 88,217 |
| **Interest income and similar to interest income** | | **321,296** | **323,896** |
| **Interest expense** | 29. | **(99,630)** | **(119,384)** |
| **NET INTEREST INCOME** | | **221,666** | **204,512** |
| Loss allowance on loan, placement and repo receivables losses | 6., 7., 10., 30. | (61,310) | (29,056) |
| *from this: loss from derecognition of loans at amortised cost* | | *(3,638)* | *(19,831)* |
| Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost | 9., 12., 30. | (1,848) | 401 |
| Provision for loan commitments and financial guarantees given | 24., 30. | (3,202) | (5,794) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | | (405) | (5,432) |
| **Risk cost total** | | **(66,765)** | **(39,881)** |
| **NET INTEREST INCOME AFTER RISK COST** | | **154,901** | **164,631** |
| **MODIFICATION LOSS** | 4. | **(17,358)** | **-** |
| Income from fees and commissions | 31. | 259,781 | 248,954 |
| Expenses from fees and commissions | 31. | (40,750) | (35,591) |
| **NET PROFIT FROM FEES AND COMMISSIONS** | | **219,031** | **213,363** |
| Foreign exchange (losses) and gains | | (4,518) | 3,288 |
| Gains on securities, net | | 17,955 | 8,188 |
| *from this: gain from derecognition of securities at amortised cost* | | *360* | *714* |
| (Losses) / Gains on financial instruments at fair value through profit or loss | | (671) | 1,260 |
| Gains on derivative instruments, net | | 7,057 | 4,715 |
| Dividend income | 11. | 60,973 | 78,887 |
| Other operating income | 32. | 7,900 | 7,505 |
| Other operating expenses | 32. | (28,064) | 26,515 |
| **NET OPERATING INCOME** | | **60,632** | **130,358** |
| Personnel expenses | 32. | (118,498) | (115,035) |
| Depreciation and amortization | 32. | (38,948) | (29,925) |
| Other general expenses | 32. | (166,514) | (160,198) |
| **OTHER ADMINISTRATIVE EXPENSES** | | **(323,960)** | **(305,158)** |
| **PROFIT BEFORE INCOME TAX** | | **93,246** | **203,194** |
| Income tax | 33. | (772) | (9,840) |
| **NET PROFIT FOR THE YEAR** | | **92,474** | **193,354** |
| Earnings per share (in HUF) | | | |
| Basic | 42. | 333 | 691 |
| Diluted | 42. | 333 | 691 |

**OTP BANK PLC.**
**SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020 (in HUF mn)**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **92,474** | **193,354** |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Fair value adjustment of debt instruments at fair value through other comprehensive income | | (14,459) | 16,732 |
| Deferred tax (9%) related to debt instruments at fair value through other comprehensive income | 33. | 1,262 | (1,332) |
| (Losses) / Gains on separated currency spread of financial instruments designated as hedging instrument | | (1,526) | 367 |
| Deferred tax (9%) related to separated currency spread of financial instruments designated as hedging instrument | 33. | 137 | (33) |
| (Losses) / Gains on derivative financial instruments designated as cash flow hedge | | (296) | 2,086 |
| Deferred tax (9%) related to derivative financial instruments designated as cash flow hedge | 33. | 27 | (188) |
| **Items that will not be reclassified to profit or loss:** | | | |
| Fair value adjustment of equity instruments at fair value through other comprehensive income | | (3,275) | 3,867 |
| Deferred tax (9%) related to equity instruments at fair value through other comprehensive income | 33. | 310 | (348) |
| **Other comprehensive income total** | | **(17,820)** | **21,151** |
| **NET COMPREHENSIVE INCOME** | | **74,654** | **214,505** |

**OTP BANK PLC.**
**SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 (in HUF mn)**

| | Note | Share Capital | Capital reserve | Retained earnings and other reserves | Treasury Shares | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | | **28,000** | **52** | **1,484,854** | **(1,964)** | **1,510,942** |
| Net profit for the period | | - | - | 193,354 | - | 193,354 |
| Other comprehensive income | | - | - | 21,151 | - | 21,151 |
| **Total comprehensive income** | | - | - | **214,505** | - | **214,505** |
| Share-based payment | 38. | - | - | 3,547 | - | 3,547 |
| Payments to ICES holders | | - | - | (1,334) | - | (1,334) |
| Sale of treasury shares | 28. | - | - | - | 33,513 | 33,513 |
| Acquisition of treasury shares | 28. | - | - | - | (34,185) | (34,185) |
| Loss on sale of treasury shares | 28. | - | - | (11,950) | - | (11,950) |
| Dividend for the year 2018 | | - | - | (61,320) | - | (61,320) |
| **Other transaction with owners** | | - | - | **(71,057)** | **(672)** | **(71,729)** |
| **Balance as at 1 January 2020** | | **28,000** | **52** | **1,628,302** | **(2,636)** | **1,653,718** |
| Net profit for the period | | - | - | 92,474 | - | 92,474 |
| Other comprehensive income | | - | - | (17,820) | - | (17,820) |
| **Total comprehensive income** | | - | - | **74,654** | - | **74,654** |
| Share-based payment | 38. | - | - | 3,394 | - | 3,394 |
| Payments to ICES holders | | - | - | (4,853) | - | (4,853) |
| Sale of treasury shares | 28. | - | - | - | 41,759 | 41,759 |
| Acquisition of treasury shares | 28. | - | - | - | (85,922) | (85,922) |
| Loss on sale of treasury shares | 28. | - | - | (4,416) | - | (4,416) |
| Dividend for the year 2019 | | - | - | - | - | - |
| **Other transaction with owners** | | - | - | **(5,875)** | **(44,163)** | **(50,038)** |
| **Balance as at 31 December 2020** | | **28,000** | **52** | **1,697,081** | **(46,799)** | **1,678,334** |

**OTP BANK PLC.**
**SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED**
**31 DECEMBER 2020 (in HUF mn)**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit before income tax** | | **93,246** | **203,194** |
| Net accrued interest | | (34,365) | 6,760 |
| Depreciation and amortization | *13.* | 38,997 | 29,925 |
| Loss allowance on loans and placements | *30.* | 61,310 | 33,728 |
| Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income | *9.* | 3 | (176) |
| Impairment loss / (Reversal of impairment loss) on investments in subsidiaries | *11.* | 10,042 | (38,807) |
| Loss allowance / (Release of loss allowance) on securities at amortised cost | *12.* | 1,845 | (225) |
| Loss allowance / (Release of loss allowance) on other assets | *16.* | 3,521 | (186) |
| Provision on off-balance sheet commitments and contingent liabilities | *24.* | 3,110 | 5,411 |
| Share-based payment | *38.* | 3,394 | 3,547 |
| Unrealised losses / (gains) on fair value adjustment of financial instruments at fair value through profit or loss | | 3,549 | (1,379) |
| Unrealised losses on fair value adjustment of derivative financial instruments | | 4,011 | 6,777 |
| Interest expense from leasing liabilities | | (257) | (244) |
| **Net changing in assets and liabilities in operating activities** | | | |
| Changes in held for trading securities | *8.* | 34,091 | (23,247) |
| Change in financial instruments mandatorily measured at fair value through profit or loss | *8.* | (9,015) | (984) |
| Changes in derivative financial instruments at fair value through profit or loss | *8.* | 2,895 | 483 |
| Net increase in loans | *10.* | (604,138) | (743,665) |
| Increase in other assets, excluding advances for investments and before provisions for losses | *16.* | (56,532) | (7,312) |
| Net increase in deposits from customers | *19.* | 1,322,243 | 832,785 |
| (Decrease) / Increase in other liabilities | *24.* | (25,145) | 495 |
| Net increase in the compulsory reserve established by the National Bank of Hungary | *5.* | (10,978) | (7,558) |
| Dividend income | *11.* | (60,913) | (72,972) |
| Income tax paid | | (1,449) | (628) |
| **Net cash provided by operating activities** | | **779,465** | **225,722** |

**OTP BANK PLC.**
**SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 (in HUF mn) [continued]**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Net increase in placements with other banks and repo receivables before allowance for placement losses | *6. 7.* | (115,862) | (518,327) |
| Purchase securities at fair value through other comprehensive income | *9.* | (1,079,151) | (1,078,031) |
| Proceeds from sale of securities at fair value through other comprehensive income | *9.* | 1,623,498 | 1,068,081 |
| Change in derivative financial instruments designated as hedge accounting | | (190) | - |
| Increase in investments in subsidiaries | *11.* | (32,961) | (326,158) |
| Decrease in investments in subsidiaries | *11.* | 16,485 | - |
| Dividend income | | 60,913 | 72,972 |
| Increase in securities at amortised cost | *12.* | (680,089) | (146,771) |
| Redemption of securities at amortised cost | *12.* | 119,642 | 127,671 |
| Additions to property, equipment and intangible assets | *13.* | (68,885) | (48,381) |
| Disposal of property, equipment and intangible assets | *13.* | 29,433 | 1,969 |
| Net decrease / (increase) in investment properties | *14.* | 396 | (48) |
| Net increase in advances for investments included in other assets | *16.* | - | - |
| **Net cash used in investing activities** | | **(126,771)** | **(847,023)** |
| **FINANCING ACTIVITIES** | | | |
| Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks and repo liabilities | *17. 18.* | (322,365) | 461,774 |
| Financial liabilities designated as fair value through profit or loss | *21.* | (4,219) | (3,331) |
| Leasing payments | | (3,919) | (3,927) |
| Cash received from issuance of securities | *20.* | 7,119 | 10,201 |
| Cash used for redemption of issued securities | *20.* | (21,984) | (13,584) |
| Increase in subordinated bonds and loans | *25.* | 29,945 | 166,704 |
| Decrease in subordinated bonds and loans | *25.* | (5,373) | - |
| Payments to ICES holders | *27.* | (4,853) | (1,334) |
| Increase of Treasury shares | *28.* | (85,923) | (34,185) |
| Decrease of Treasury shares | *28.* | 37,344 | 21,563 |
| Dividends paid | *27.* | (10) | (61,307) |
| **Net cash (used in) / provided by financing activities** | | **(374,238)** | **542,574** |
| **Net increase / (decrease) in cash and cash equivalents** | | **278,456** | **(78,727)** |
| **Cash and cash equivalents at the beginning of the year** | | 224,631 | 303,358 |
| **Cash and cash equivalents at the end of the year** | *5.* | **503,087** | **224,631** |

**OTP BANK PLC**
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

## NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

### 1.1. General information

OTP Bank Plc. ("Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16, Nádor Street, Budapest 1051. Internet homepage: http://www.otpbank.hu/

Signatory of the separate financial statements is the Chief Executive Officer, dr. Sándor Csányi (Budapest).

Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Directorate, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), 1068 Budapest Dózsa György Street 84/C. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Tamás Horváth, registration number: 003449.

Audit service fee agreed by the Annual General Meeting of the Bank for the year ended 2020 is an amount of HUF 70 million + VAT.

All other fees charged by the Auditor for non-audit services during the financial year are disclosed in the consolidated financial statements of the Bank.

In 1995, the shares of the Bank were introduced on the Budapest and the Luxembourg Stock Exchanges and were also traded on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

The structure of the Share capital by shareholders (%):

| | 2020 | 2019 |
|---|---|---|
| Domestic and foreign private and institutional investors | 97% | 99% |
| Employees | 1% | 1% |
| Treasury shares | 2% | 0% |
| **Total** | **100%** | **100%** |

The Bank's Registered Capital consists of 280.000.010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights to the shareholders.

The Bank provides a full range of commercial banking services through a nationwide network of 364 branches in Hungary.

| **Number of branches** | **2020** | **2019** |
|---|---|---|
| | 364 | 370 |

**Number of the employees of the Bank:**

| | 2020 | 2019 |
|---|---|---|
| Number of employees | 9,829 | 9,318 |
| Average number of employees | 9,654 | 8,981 |

### 1.2. Basis of accounting

These Separate Financial Statements were prepared based on the assumption of the Management that the Bank will remain in business for the foreseeable future. The Bank will not be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

The Bank maintains its accounting records and prepares their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation and functional currency of the Bank is the Hungarian Forint ("HUF").

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]**

**1.2.1. The effect of adopting new and revised IFRS standards effective from 1 January 2020**

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

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

The adoption of these amendments to the existing standards has not led to any material changes in these Separate Financial Statements.

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

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

**1.2.3. Standards and Interpretations issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at date of publication of these financial statements:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Annual Improvements (effective fog annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** - Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying separate financial statements are summarized below:

### 2.1. Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Bank does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

### 2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of profit or loss.

### 2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements. The consolidated financial statements and the separate financial statements will be published on the same date.

### 2.4. Investments in subsidiaries, associated companies and other investments

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP Bank calculates the fair value based on discounted cash flow model. The 3 year period explicit cash flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.5. Securities at amortised cost

The Bank measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Bank initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income (Eir based) so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis. Such securities comprise mainly securities issued by the Hungarian Government bonds and corporate bonds.

### 2.6. Financial assets at fair value through profit or loss

#### 2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of profit or loss for the period. The Bank holds held for trading securities within the business model to obtain short-term gains. Consequently realised and unrealised gains and losses are recognized in the net operating income. The Bank applies FIFO[1] inventory valuation method for securities held for trading. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

#### 2.6.2. Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of profit or loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

***Foreign currency contracts***

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of forward contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

[1] First In First Out

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6.2 Derivative financial instruments [continued]**

***Foreign exchange swaps and interest rate swaps***

The Bank enters into foreign-exchange swap and interest rate swap ("IRS") transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.
Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

***Cross-currency interest rate swaps***

The Bank enters into cross-currency interest rate swap ("CCIRS") transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

***Equity and commodity swaps***

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

***Forward rate agreements ("FRA")***

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

***Foreign exchange options***

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.7. Derivative financial instruments designated as a fair value or cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges are charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.
Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss. The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash flow hedges - in line with the standard – hedge accounting is still applied as long as the underlying asset is derecognised.

### 2.8. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. In the case of the derivative financial instruments the Bank applies offsetting and net presentation in the Statement of Financial Position when the Bank has the right and the ability to settle the assets and liabilities on a net basis.

### 2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined or hybrid contract that includes a host contract and a derivative (the embedded derivative) affecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

As long as a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract and no embedded derivative is separated.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.10. Securities at fair value through other comprehensive income ("FVOCI securities")

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

**Debt instruments**

Investments in debt securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealised gains and losses on FVOCI financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such FVOCI security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. The Bank applies FIFO[1] inventory valuation method for FVOCI securities.

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income.

FVOCI securities are remeasured at fair value based on quoted prices or values derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

**Fair value through other comprehensive income option for equity instruments**

In some cases the Bank made an irrevocable election at initial recognition for certain non-trading investments in an equity instrument to present subsequent changes in fair value of these securities in other comprehensive income instead of in profit or loss.

The use of the fair value option is based only on direct decision of management of the Bank.

### 2.11. Loans, placements with other banks, repo receivables and loss allowance for loan, placements and repo receivables losses

The Bank measures Loans, placements with other banks and repo receivables at amortised cost, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank recognises financial assets, which are not held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding as loans measured at fair value through profit or loss.

Loans, placements with other banks and repo receivables are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans, placements with other banks and repo receivables are derecognised when the contractual rights to the cash flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted for using the effective interest rate method.

Initially, financial assets shall be recognized at fair value which is usually equal to the transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

[1] First In First Out

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.11. Loans, placements with other banks, repo receivables and loss allowance for loan, placements and repo receivables losses [continued]**

Allowance for losses on loans, placements with other banks and repo receivables represent management assessment for potential losses in relation to these activities.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loan, placement and repo receivables losses" in the Statement of Profit or loss.

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.

The gross carrying amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

If there are reasonable expectations of recovery for a financial asset that is written-off fully or partially, OTP Bank shall re-estimate cash flows of a financial asset and write-off reversal is applied in the financial statements.

**Modification of contractual cash flows**

If contractual cash flows of a financial asset change and it is not qualified as derecognition, modification gain or loss should be calculated in the separate statement of profit or loss in those cases like restructuring – as defined in internal policies of the Bank – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been earlier.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and shall recognizes a modification gain or loss in profit or loss. The modification indicates an insignificant change (the significance is assessed at the financial statement level of the Bank (and not at contract level).

The changes of net present value should be calculated on Bank level in case of retail portfolio. Each retail contract is restructured based on restructuring frameworks. The Bank has to evaluate these frameworks (and not individual contracts). The changes of net present value should be calculated individually on contract level in case of corporate portfolio.

**2.12. Loss allowance**

Allowance for losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised in amount of 12 month expected credit loss from the initial recognition. Financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets loss allowance is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are determined to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of loss allowance has been identified on an individual basis, are determined to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience.

At subsequent measurement the Bank recognises through "Loss allowance on loan, placement and repo receivables losses" in the Statement of Profit or Loss impairment gain or loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit loss.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.12. Loss allowance [continued]**

**Classification into risk classes**

According to the requirements of the IFRS9 standard, the Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS9:

| | |
|---|---|
| Stage 1 | Performing |
| Stage 2 | Performing, but compared to the initial recognition it shows significant increase in credit risk |
| Stage 3 | Non-performing |
| POCI | Purchased or originated credit impaired |

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss. Simplified approach is the following:

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

Credit risk of financial assets increases significantly at the following conditions:

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio (“LTV”) exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- in case of corporate and municipal clients:
    - financial difficulty (capital requirements, liquidity, impairment of asset quality),
    - significant decrease of activity and liquidity in the market of the asset,
    - client’s rating reflects higher risk, but better than default,
    - collateral value drops significantly, from which the client pays the loan,
    - more than 50% decrease in owner’s equity due to net losses,
    - client under dissolution,
    - negative information from Central Credit Information System: the payment delay exceeds 30 days

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.12. Loss allowance [continued]**

**Classification into risk classes [continued]**

Financial assets classifies as non-performing, if the following conditions are met:

- default,
- non-performing forborne exposures,
- in case of corporate and municipal clients:
  - breach of contract terms and conditions
  - critical financial difficulty of the client (capital requirements, liquidity, impairment of asset quality),
  - liquidation, dissolution or debt clearing procedures against client,
  - forced deregistration procedures from company registry,
  - terminated loans by the Bank,
  - in case of fraud,
  - negative information from Central Credit Information System: the payment delay exceeds 90 days,
  - cessation of active markets of the financial asset,
  - default of ISDA based contracts.

For lifetime expected credit losses, the Bank shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent cash flow shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period fi the expected life of the financial instrument is less than 12 months), weighted by the probability of that default occurring.

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**2.13. Option to designate a financial asset/liability measured at fair value through profit or loss (FVTPL option)**

The Bank may, at initial recognition, irrevocably designate a financial asset or liability as measured at fair value through profit or loss. The Bank may use FVTPL option in the following cases:

- if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- if the group of financial liabilities or assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel.

The use of the fair value option is limited only to special situations, and it can be based only on direct decision of management of the Bank.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.14. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement. In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

### 2.15. Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

| | |
|---|---|
| Intangible assets | |
| Software | 20-33.3% |
| Property rights | 16.7-33.3% |
| Property | 1-2% |
| Office equipment and vehicles | 9-33.3% |

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

### 2.16. Inventories

The inventories shall be measured at the lower of cost and net realisable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Bank uses generally FIFO formulas to the measurement of inventories. Inventories shall be removed from books when they are sold, unusable or destroyed. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. Repossessed assets are classified as inventories.

### 2.17. Investment properties

Investment properties of the Bank are land, buildings, part of buildings which are held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Bank measures the investment properties at cost less accumulated depreciation and impairment, if any. The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the 1-2% annual percentages.

The fair value of the investment properties is established mainly by external experts. According to the opinion of the Management there is no significant difference between the fair value and the carrying value of these properties.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.18. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortised cost, fees and commissions related to the origination of the financial liability are recognised through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognised in the statement of profit or loss and included in other operating income.

### 2.19. Leases

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

**Recognition of lease liabilities**

The Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~1,62%

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.4 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

**Recognition of right-of-use assets**

Right-of-use assets are initially measured at cost.

The cost of a right-of-use asset comprises:

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

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~1,61 %

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.20. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court. Share capital is the capital the Bank raised by issuing common stocks at the date the shares were issued. The amount of share capital has not changed over the current period.

### 2.21. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are recognised directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

### 2.22. Interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method except derivative financial instruments. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The time-proportional interest income of derivative financial instruments calculated not using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income.

### 2.23. Fees and Commissions

Fees and commissions that are not involved in the amortised cost model are recognised in the Separate Statement of Profit or Loss on an accrual basis according to IFRS 15. (See further details in Note 31). These fees are related to deposits, cash withdrawal, security trading, bank card, etc.

### 2.24. Dividend income

Dividend income refers to any distribution of entity's earnings to shareholders from stocks or mutual funds that is owned by the Bank. The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

### 2.25. Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carryforward of unused tax credits.

### 2.26. Banking tax

The Bank is obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit (but the adjusted Assets total calculated based on the Separate Financial Statements for the second period preceding the current tax year), banking tax is not considered as income tax.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.27. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses which are probable and relate to present obligations.

Those commitments and contingent liabilities Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

Expected credit loss model is applied for given financial guarantees and loan commitments which are under IFRS 9 the, when the provision is calculated (see more details in Note 2.12.).

### 2.28. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

### 2.29. Separate statement of cash flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Bank primarily on a gross basis. Net basis reporting are applied by the Bank in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Bank, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH excluding compulsory reserve. Cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash flows for the monetary items which have been revalued.

### 2.30. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.31. Comparative figures

**Change in the classification and valuation policy of certain subsidized retail loans and FX margins**

In 2020, the Bank changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. The interest payments on the retail loans are determined on the basis of the government bond reference yields and a multiplier. Previously, in accordance with the Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2020, the Bank classified this type of loan as measured at fair value through profit or loss. The new accounting policy is in line with the practices of the majority of the players in the banking sector, thus better facilitating comparability. Therefore, in the Bank's opinion, the change in accounting policy results in a more reliable, comparable and relevant presentation of the effects of the loans in question on the Bank's financial position and financial performance in the financial statements.

In parallel with the change in accounting policy, the Bank also changed the structure of the balance sheet. In the statement of financial position, the Bank presents loans in a uniform manner, based on the nature of the instruments, on the line Loans, regardless of their classification and valuation category. The amounts presented under Loans are disclosed in the relevant Note by valuation category.

The new accounting policy is applied retrospectively by the Bank as if it had always applied this accounting policy. The Bank has made the following adjustments to the comparative figures. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy did not result in a material change in the carrying amount of the loans involved or equity. Therefore, the Bank did not change the related balance sheet values for the adjustment relating to periods before those presented, the statement, the statement of financial position contains only the data at the end of the current period and at the end of the comparative period.

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

- The Bank recognizes interest income on loans measured at fair value through profit or loss for the period in the Income similar to Interest Income line at the value corresponding to transactional interest. The comparative value of the line of interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using the previously applied effective interest rate method.
- The Bank presents the amount of commission income and commission expenses related to loans at fair value through profit or loss in the Fee and commission income and Fee and commission expense lines.
- The Bank presents the change in the fair value of loans measured at fair value through profit or loss, broken down into two components:
  - The Bank presents the portion of the change in fair value arising from changes in credit risk within Risk cost as Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss. This amount is determined using expected credit loss models used for loans measured at amortized cost. The comparative amount of Loss allowance on loans, placements and repo receivables has been reduced accordingly with the loss allowance and reversal amounts for the respective loans.
  - The Bank presents the remaining component of the change in fair value under the (Losses) / Gains on financial instruments at fair value through profit or loss.

The change in accounting policy did not impact the net profit for the comparative period, nor the comparative earnings per ordinary share.

The other reclassification relates to realized foreign exchange results which were previously presented within Net operating income. The change in presentation means that the result recognized on these transactions is now presented in Income from fees and commissions.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes. In the comparative figures, the Bank has reduced the previously disclosed amortized cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Bank has also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked “Revised” by the Bank. The Bank has also revised the presentation of the detailed notes to the amended profit or loss line items for comparative information in accordance with the new values in the statement of profit or loss.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.31. Comparative figures [continued]**

**Amendments to the information published in the supplementary annexes concerned the following supplementary notes**

| Note | Name of the Note |
|---|---|
| 10. | Loans |
| 29. | Interest income and interest expenses |
| 30. | Risk cost |
| 35. | Financial risk management |
| *35.1.* | *Credit risk* |
| *35.1.1.* | *Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income* |
| *35.1.1.* | *Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages* |
| *35.1.1.* | *Loan portfolio by countries* |
| *35.1.2.* | *Collaterals* |
| *35.2.* | *Maturity analysis of assets and liabilities and liquidity risk* |
| *35.4.* | *Interest rate risk management* |
| 43. | Net gain or loss realised on financial instruments |
| 44. | Fair value of financial instruments |
| *44. a)* | *Fair value of financial assets and liabilities* |
| *44. d)* | *Fair value classes* |

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.31. Comparative figures [continued]**

| Line item | 2020 | 2019 Revised presentation | Reclassification of amounts related to mandatorily measured at fair value through profit or loss | Reclassification of gains from foreign exchange margin | 2019 As previously presented |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest method | 239,633 | 235,679 | (3,716) | - | 239,395 |
| Income similar to interest income | 81,663 | 88,217 | 5,106 | - | 83,111 |
| **Interest incomes and similar to interest incomes** | **321,296** | **323,896** | **1,390** | **-** | **322,506** |
| **Interest expense** | **(99,630)** | **(119,384)** | **-** | **-** | **(119,384)** |
| Loss allowance on loan, placement and repo receivables losses | (61,310) | (27,511) | 4,672 | - | (32,183) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | (405) | (5,432) | (5,432) | - | - |
| Further risk cost items | (5,050) | (6,938) | - | - | (6,938) |
| **Risk cost total** | **(66,765)** | **(39,881)** | **(760)** | **-** | **(39,121)** |
| **NET INTEREST INCOME AFTER RISK COST** | **154,901** | **164,631** | **630** | **-** | **164,001** |
| Income from fees and commissions | 259,781 | 248,954 | - | 9,959 | 238,995 |
| **NET PROFIT FROM FEES AND COMMISSIONS** | **219,031** | **213,363** | **-** | **9,959** | **203,404** |
| Foreign exchange (losses) and gains, net | (4,518) | 3,288 | - | (9,959) | 13,247 |
| (Losses) / Gains on financial instruments at fair value through profit or loss | (671) | 1,260 | (630) | - | 1,890 |
| **NET OPERATING INCOME** | **60,632** | **130,358** | **(630)** | **(9,959)** | **140,947** |

## NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on expected loss and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgements include:

### 3.1. Loss allowance on financial instruments

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized. (For details see note 35.1.1.)

### 3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

### 3.3. Provisions

Provision is recognised and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

Other provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 24.)

Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for Confirmed letter of credit.

A provision is recognised by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### 3.4. Business models

The financial assets held by the Bank are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Bank manages mainly loans and advances and long term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Bank only manages securities.
- Business model whose objective is to achieve gains in a short term period. Within this business model the Bank manages securities and derivative financial instrument.

**NOTE 4: COVID-19 (in HUF mn)**

Covid-19 has had substantial implications for the operations of the Bank during 2020. Below are some of the more important Covid-19 related events that occurred in Hungary:

- On 16 March 2020 the NBH decided to expand the range of eligible collaterals with performing corporate loans. Effective from 11 May 2020 only corporate loans exceeding HUF 1 billion can be used as collateral in the liquidity providing operations.
- In addition to the 1, 3, 6 and 12-month tenders announced every Monday in the same way, the NBH announced one-week FX swap tenders providing forint liquidity on a daily basis from 17 March 2020 until further notice, in order to maintain the appropriate level of liquidity for the banking sector.
- On 18 March 2020 the NBH took measures to support the operation of banks and strengthen the banking system. Among others the NBH requested banks and their owners to make sure that dividends are neither approved, nor paid until the end of September of 2020.
- On 18 March 2020 the Prime Minister of Hungary announced the first stage of economic and job protection measures. The steps, among others, included:
  - a blanket debt repayment moratorium;
  - the introduction of the annual percentage rate "APR" caps on new consumer loans: pursuant to the relevant Government Decrees, APR is temporarily capped at central bank base rate + 5 percentage points in the case of loans to consumers that are not collateralized by a mortgage and are disbursed based on a contract concluded after 19 March 2020. This provision must be applied until 31 December 2020, then following this deadline the APR set out in the given lender's Terms & Conditions effective at the time of the signing of the contract will be applicable;
  - the extension of short-term business loans until 30 June.
- Pursuant to Government Decree No. 47/2020. (III. 18.) and Government Decree No. 62/2020. (III. 24.), a moratorium on payments was introduced in Hungary concerning both principal, interest and fee payment obligations arising from both credit, loan and finance lease amounts that have already been disbursed until 18 March 2020. The moratorium did not involve debt forgiveness element. The first moratorium was effective until 31 December 2020. The scope of the moratorium included, among others, both retail and corporate debtors. Regarding details and technical provisions, the non-paid interest during the payment holiday cannot be capitalized to the outstanding principal (neither during the moratorium, nor afterwards). The amount of delayed interest accumulated during the moratorium must be repaid after the moratorium in equal instalments, evenly spread over the remaining years of the loan tenor, together with the due instalments.
- Following the moratorium, the tenor will be prolonged in a way that the sum of the due instalment and the unpaid interest during the moratorium (which is to be repaid in equal instalments) in total should not exceed the instalment according to the original contract. Rules applicable to the interest must also be applied to the fees. The borrower's participation was automatic, but the moratorium did not affect the debtors' right to continue to pay according to the original contractual terms.
- On its 24 March 2020 meeting the Monetary Council decided to introduce a new fixed-rate collateralized loan instrument with maturities of 3, 6 and 12 months and 3 and 5 years. Lending will be provided by the NBH at a fixed interest rate (the NBH defines the interest rate of the instrument at each tender, but the rate may not be lower than the base rate).
- On 1 April 2020 the NBH decided to announce one-week deposit tenders at a weekly frequency. The interest rate on the instrument equals to the central bank base rate.
- On 1 April 2020 the NBH announced that effective from 1 July the capital buffer requirements for systemically important banks will be released. The banks must rebuild their capital buffer initially prescribed for 2020 gradually in three years from 2022 onwards. At the time of the decision the O-SII buffer applicable for OTP Bank was 2%.
- On 4 April 2020 the Minister of Prime Minister's Office revealed that the Government expects banks to contribute HUF 55 billion into the new epidemic fund. Pursuant to the Government Decree 108/2020 published on 14 April, the new special tax levied on banks is to be paid in the 2020 tax year, in three equal instalments (in June, September and December). The base of the new special tax is that part of the adjusted total assets (as defined in the legislation on the "old" bank tax) that exceeds HUF 50 billion. The tax rate is 19 bps.
- On 9 June 2020 the law allowing the deductibility of the new special banking levy payable in 2020 was promulgated. The new once-off special banking tax will be returned to the banking system over the next five years through deductions from the nominal amount of the "old" bank tax (in the form of tax withholding).
- The new special tax amounts to HUF 14.2 billion in the case of the Hungarian Group members of OTP Group. Pursuant to IFRS standards, parallel with the accounting of this new bank levy amongst the other expenses, the Group recognized the net present value of the related tax claims amongst the other income. Therefore, the new special tax did not materially affect the Group's bottom line earnings neither in 2020, nor will it do so over the next 5 years.

**NOTE 4: COVID-19 (in HUF mn) [continued]**

- On 7 April 2020 the NBH adjusted its policy instruments and modified its operational framework. The Monetary Council decided to make the interest rate corridor symmetrical, and left the base rate and the overnight deposit rate unchanged at 0.9% and -0.05%, respectively, and raised the overnight and one-week collateralized lending rates to 1.85%. The one-week deposit rate, at the time of the announcement, was equal to the 0.9% base rate; however, the Monetary Council decided to allow the interest rate on the instrument to deviate from the base rate upward or downward within the interest rate corridor. The NBH said that it will set the interest rate on the instrument each week, at the time of the actual tender's announcement.
- As part of the comprehensive set of measures outlined by the NBH on 7 April 2020, it decided to
  - Launch a government security purchase programme in the secondary market to restore the stable liquidity position of the government securities market and influence the longer part of the yield curve, and to relaunch its mortgage bond purchase programme to improve the long-term supply of funding to the banking sector.
  - Details of the programmes including the timing and strategic parameters were revealed on 28 April: accordingly, the NBH launched its government securities and mortgage bonds purchase programmes on 4 May 2020, and it will continue to purchase securities as long as economic and financial developments arising from the coronavirus pandemic require it.
  - The NBH did not set a total amount of purchases for either programme.
  - The NBH launched the Funding for Growth Scheme Go! scheme on 20 April 2020. Including HUF 500 billion undrawn under the FGS fix, the NBH made available up to HUF 1,500 billion to the SME sector under the FGS Go!.
  - Within the framework of the Bond Funding for Growth Scheme, the so far unutilized over HUF 200 billion was still available for the NBH to purchase bonds issued by non-financial corporations headquartered in Hungary.
- On 16 April 2020 the Minister of Finance revealed further tax concessions amounting to HUF 200 billion. Among others, the social security contributions payable by employers were cut to 15.5% from 17.5% effective from July 2020.
- On 2 July 2020, the NBH decided to expand the loan purposes available in the FGS Go! structure.
- On 10 September 2020 the National Bank of Hungary, in the wake of increased uncertainties amid the pandemic, called upon credit institutions to extend the previously applied restriction on dividend payments and decisions, which was effective until 30 September 2020, until 1 January 2021.
- On 22 September 2020 the NBH increased the available amount under the Bond Funding for Growth programme from HUF 450 to 750 billion.
- As the utilisation of the Funding for Growth Go! scheme exceeded HUF 1,000 billion by mid-November, on 17 November 2020 the Monetary Council decided to raise the total available amount by HUF 1,000 billion (to HUF 2,500 billion).
- As set out in Government Decree 518/2020. (XI. 25.), published in the Gazette on 25 November 2020, starting from 1 January 2021 the Hungarian Government provides a non-refundable home renovation subsidy to families raising or expecting children by way of refunding certain part of their home renovation costs. Eligible families can get back 50% of their proven improvement expenses following the completion of the renewal, but maximum HUF 3 million. The subsidy can be applied for within 60 days after completing the home renovation and also paying the bills by the families, or until 31 December 2022 the latest.
- On 19 December 2020 the Prime Minister announced the following measures directly affecting banking operations:
  - Extension of the payment moratorium in unchanged form: pursuant to Government Decree 637/2020. (XII. 22.) those borrowers are eligible for the moratorium effective between 1 January 2021 – 30 June 2021 that have principal, interest and fee payment obligations arising from a credit contract that have already been disbursed until 18 March 2020 (also considering Subsection (1) of Section 3 of Act CVII of 2020). With the above Decree the eligibility conditions stipulated in Act CVII of 2020 (published on 28 October 2020) for retail and corporate borrowers were repealed.
  - Subsidized home renovation loan: in order to help eligible families to take advantage of the non-refundable home renovation subsidy (for details, see Government Decree 518/2020. (XI. 25.)), a subsidized home renovation loan (for details, see Government Decree 641/2020 (XII. 22.)) was introduced by the Government.

**NOTE 4: COVID-19 (in HUF mn) [continued]**

- On 28 December 2020 the National Bank of Hungary announced that the following decisions were made:
  - The central bank recommended credit institutions not to pay dividends or not to make any irrevocable commitment to pay dividends after the 2019 and 2020 financial year, or from previous years' profits, until 30 September 2021. Furthermore, the central bank suggested that credit institutions should refrain from treasury share purchases for shareholder remuneration purposes until the same date (share buybacks for management remuneration purposes are an exemption). The related guideline was set out in a management circular published on 8 January 2021.
  - The NBH decided to amend the relevant detailed guidelines set out in its IFRS circular about the application of non-performing and forborne categories in connection with the payment moratorium, and based on this, its guidelines for creating provisions. The amended circular was released on 22 January 2021.
- Effective from 13 January 2021 the National Bank of Hungary extended the available amount for the Bond Funding for Growth scheme by HUF 750 billion to HUF 1,150 billion. At the same time it decided to increase the maximum maturity of corporate bonds that can be purchased by the central bank from 20 to 30 years. Also, the central bank's exposure limit to a company group was revised from HUF 50 billion to HUF 70 billion.
- On 4 February 2021 the Prime Minister announced an interest-free loan programme for companies in trouble in the wake of the pandemic. According to Government Resolution 1038/2021. (II. 5.) the programme will be administered by the Hungarian Development Bank, and the available amount under the programme will be HUF 100 billion. Companies can take out maximum HUF 10 million each for the purpose of covering wages and social contributions, overhead costs, general operating expenses and inventory financing. Client interest rate is 0%, the loan tenor can be up to 10 years, and the servicing of the loan will start after a 3 year grace period.

**Participation in COVID moratorium**

| | Current volume in moratorium | Current participation ratio |
|---|---|---|
| OTP Bank | 1,059,428 | 26.2% |

**Financial assets modified during the period related to moratorium**

| | 2020 | 2019 |
|---|---|---|
| Gross carrying amount before modification | 676,764 | 594,938 |
| Loss allowance before modification | (47,658) | (14,075) |
| **Net amortised cost before modification** | **629,106** | **580,863** |
| Modification loss due to covid moratoria | (17,358) | - |
| **Net amortised cost after modification** | **611,748** | **580,863** |

## NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Cash on hand: | | |
| In HUF | 107,523 | 180,259 |
| In foreign currency | 18,899 | 16,385 |
| | **126,422** | **196,644** |
| Amounts due from banks and balances with National Bank of Hungary: | | |
| Within one year: | | |
| In HUF | 204,942 | 39,871 |
| In foreign currency | 247,756 | 53,171 |
| | **452,698** | **93,042** |
| **Subtotal** | **579,120** | **289,686** |
| Average amount of compulsory reserve | 76,033 | 65,055 |
| **Total** | **503,087** | **224,631** |
| Rate of the compulsory reserve | 1% | 1% |

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

a) deposits and loans,
b) debt instruments,
c) repo transactions.

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and compulsory reserve rate, which are determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in average in the second month after the reserve calculation period, requirements shall be completed once a month on the last calendar day. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH in monthly average.

## NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 905,241 | 732,283 |
| In foreign currency | 329,633 | 476,314 |
| | **1,234,874** | **1,208,597** |
| Over one year | | |
| In HUF | 267,291 | 325,308 |
| In foreign currency | 39,538 | 29,829 |
| | **306,829** | **355,137** |
| **Total placements** | **1,541,703** | **1,563,734** |
| Loss allowance on placement losses | (5,819) | (3,592) |
| **Total** | **1,535,884** | **1,560,142** |

**NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn) [continued]**

An analysis of the change in the loss allowance on placement losses is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **3,592** | **2,047** |
| Loss allowance | 12,724 | 5,068 |
| Release of loss allowance | (10,497) | (3,523) |
| **Closing balance** | **5,819** | **3,592** |

Interest conditions of placements with other banks (%):

| | 2020 | 2019 |
|---|---|---|
| Placements with other banks in HUF | 0%-3.84% | 0%-3.84% |
| Placements with other banks in foreign currency | (0.76%)-29% | (0.76%)-3.81% |
| Average interest of placements with other banks | 0.81% | 0.56% |

**NOTE 7: REPO RECEIVABLES (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 183,656 | 45,545 |
| **Total gross amount** | **183,656** | **45,545** |
| Loss allowance | (292) | (6) |
| **Total repo receivables** | **183,364** | **45,539** |

An analysis of the change in the loss allowance on repo receivables is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **6** | **12** |
| Loss allowance | 362 | 42 |
| Release of loss allowance | (76) | (48) |
| **Closing balance** | **292** | **6** |

Interest conditions of repo receivables (%):

| | 2020 | 2019 |
|---|---|---|
| Repo receivables in HUF | (0.1%)-0.9% | (0.1%)-0.2% |
| Average interest of repo receivables | 0.09% | 0.32% |

## NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Held for trading securities: | | |
| Government bonds | 6,031 | 18,269 |
| Other non-interest bearing securities | 1,964 | 7,516 |
| Hungarian government discounted Treasury Bills | 1,233 | 12 |
| Corporate shares and investments | 426 | 369 |
| Other securities | 2,075 | 20,089 |
| **Subtotal** | **11,729** | **46,255** |
| | | |
| Securities mandatorily measured at fair value through profit or loss | | |
| Equity instruments, open-ended fund units | 26,594 | 17,100 |
| Bonds | 5,342 | 5,180 |
| **Subtotal** | **31,936** | **22,280** |
| | | |
| Held for trading derivative financial instruments: | | |
| Foreign currency swaps | 41,852 | 38,213 |
| Interest rate swaps | 34,256 | 52,516 |
| CCIRS and mark-to-market CCIRS swaps[1] | 7,359 | 1,216 |
| Other derivative transactions[2] | 33,351 | 11,749 |
| **Subtotal** | **116,818** | **103,694** |
| | | |
| **Total** | **160,483** | **172,229** |

Interest conditions and the remaining maturities of securities held for trading are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| variable interest | 78 | 2 |
| fixed interest | 2,319 | 12,323 |
| | **2,397** | **12,325** |
| Over one year: | | |
| variable interest | 1,355 | 1,030 |
| fixed interest | 5,587 | 25,014 |
| | **6,942** | **26,044** |
| | | |
| Non-interest bearing securities | 2,390 | 7,886 |
| | | |
| **Total** | **11,729** | **46,255** |
| | | |
| Securities held for trading denominated in HUF | 71% | 55% |
| Securities held for trading denominated in foreign currency | 29% | 45% |
| **Securities held for trading total** | **100%** | **100%** |
| | | |
| Government bonds denominated in HUF | 68% | 87% |
| Government bonds denominated in foreign currency | 32% | 13% |
| **Government securities total** | **100%** | **100%** |
| | | |
| Interest rates on securities held for trading in HUF | 0.5%-6.75% | 0.16%-7.5% |
| Interest rates on securities held for trading in foreign currency | 0.5%-6.38% | 0.01%-8.25% |
| Average interest on securities held for trading | 0.63% | 0.67% |

[1] CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2.)
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2.)

**NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]**

Interest conditions and the remaining maturities of securities mandatorily measured at fair value through profit or loss are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year variable interest | 28 | 25 |
| Over one year variable interest | 5,314 | 5,155 |
| Non-interest bearing securities | 26,594 | 17,100 |
| **Total** | **31,936** | **22,280** |

| | | |
|---|---|---|
| Securities mandatorily measured at fair value through profit or loss denominated in HUF | 58% | 77% |
| Securities mandatorily measured at fair value through profit or loss denominated in foreign currency | 42% | 23% |
| **Total** | **100%** | **100%** |

| | | |
|---|---|---|
| Interest rates on securities mandatorily measured at fair value through profit or loss | 2.49% | 2.60% |
| Average interest on securities mandatorily measured at fair value through profit or loss | 2.49% | 2.60% |

**NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Government bonds | 488,459 | 826,054 |
| Mortgage bonds | 332,667 | 220,004 |
| Interest bearing treasury bills | 9,957 | 339,397 |
| Other securities | 65,136 | 78,202 |
| listed securities | 42,776 | 39,601 |
| in HUF | 2,968 | 2,999 |
| in foreign currency | 39,808 | 36,602 |
| -non-listed securities | 22,360 | 38,601 |
| in HUF | 16,782 | 18,516 |
| in foreign currency | 5,578 | 20,085 |
| **Subtotal** | **896,219** | **1,463,657** |
| Non-trading equity instruments | | |
| -non-listed securities | 15,731 | 22,320 |
| in HUF | 528 | 528 |
| in foreign currency | 15,203 | 21,792 |
| | **15,731** | **22,320** |
| **Securities at fair value through other comprehensive income total** | **911,950** | **1,485,977** |

**NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]**

Detailed information of the non-trading equity instruments to be measured at fair value through other comprehensive income:

| | | 2020 | 2019 |
|---|---|---|---|
| Garantiqa | HUF | 392 | 392 |
| Hage / Közvil / Pénzügykut | HUF | 136 | 136 |
| OBS | EUR | 12,081 | 12,413 |
| VISA A Preferrred | USD | 3,122 | - |
| EASTWESTVC[1] | EUR | - | 158 |
| TCEEFUNDIII[1] | EUR | - | 4,486 |
| VISA C[1] | USD | - | 4,735 |
| **Total** | | **15,731** | **22,320** |

Interest conditions and the remaining maturities of FVOCI securities can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| variable interest | 3,779 | 6,709 |
| fixed interest | 123,481 | 609,207 |
| | **127,260** | **615,916** |
| Over one year: | | |
| variable interest | 101,555 | 84,935 |
| fixed interest | 667,404 | 762,806 |
| | **768,959** | **847,741** |
| Non-interest bearing securities | 15,731 | 22,320 |
| **Total** | **911,950** | **1,485,977** |

| | | |
|---|---|---|
| FVOCI securities denominated in HUF | 83% | 83% |
| FVOCI securities denominated in foreign currency | 17% | 17% |
| **FVOCI securities total** | **100%** | **100%** |
| Interest rates on FVOCI securities denominated in HUF | 0.5%-11% | 0.16%-11% |
| Interest rates on FVOCI securities denominated in foreign currency | 0.63%-7.25% | 0.49%-7.25% |
| Average interest on FVOCI securities | 2.75% | 2.32% |

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 35.4.)

| | 2020 | 2019 |
|---|---|---|
| Net gain / (loss) reclassified from other comprehensive income to statement of profit or loss | (2,008) | 229 |
| Fair value of the hedged securities: | - | - |
| Government bonds | 399,441 | 1,465,143 |

During the year ended 31 December 2020 the Bank didn't sell any of equity instruments designated to measure at fair value through other comprehensive income. During 2019 the Bank sold shares in Kisvállalkozásfejlesztési Ltd., net gain on the transaction was not significant.

[1] During 2020 these securities were reclassified to mandatorily FVTPL instruments

**NOTE 10: LOANS (in HUF mn)**

**Loans measured at fair value through profit or loss**

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| Within one year | 25,732 | 9,682 | 2,873 |
| Over one year | 455,205 | 228,856 | 26,858 |
| **Loans measured at fair value through profit or loss total** | **480,937** | **238,538** | **29,731** |

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

**Loans measured at amortised cost, net of allowance for loan losses**

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| Within one year | 1,793,352 | 1,625,352 | 1,632,245 |
| Over one year | 1,748,078 | 1,523,245 | 1,733,010 |
| **Loans at amortised cost gross total** | **3,541,430** | **3,148,597** | **3,365,255** |
| Loss allowance on loan losses | (123,670) | (72,066) | (79,917) |
| **Loans at amortised cost total** | **3,417,760** | **3,076,531** | **3,285,338** |

An analysis of the loan portfolio by currency (%):

| | 2020 | 2019 |
|---|---|---|
| In HUF | 61% | 57% |
| In foreign currency | 39% | 43% |
| **Total** | **100%** | **100%** |

Interest rates of the loan portfolio mandatorily measured at fair value through profit or loss are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Loans denominated in HUF | 1.5% - 9.85% | 1.19%-10.08% |
| Average interest on loans denominated in HUF | 4.20% | 3.76% |

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Loans denominated in HUF, with a maturity within one year | 0%-37.5% | 0%-37.5% |
| Loans denominated in HUF, with a maturity over one year | 0%-37.45% | 0%-37.45% |
| Loans denominated in foreign currency | (0.50%)-13% | (0.45%)-13% |
| Average interest on loans denominated in HUF | 6.09% | 6.30% |
| Average interest on loans denominated in foreign currency | 2.11% | 2.09% |

**NOTE 10: LOANS (in HUF mn) [continued]**

An analysis of the loan portfolio by type, before loss allowance on loan losses, is as follows:

| | 2020 | | 2019 Revised | | 2019 As previously presented | |
|---|---|---|---|---|---|---|
| **Retail loans** | **662,675** | **16%** | **626,927** | **18%** | **843,585** | **25%** |
| Retail consumer loans | 564,698 | 14% | 514,179 | 15% | 720,471 | 21% |
| Retail mortgage backed loans[1] | 97,977 | 2% | 112,748 | 3% | 123,114 | 4% |
| **Corporate loans** | **2,878,755** | **72%** | **2,521,670** | **75%** | **2,521,670** | **74%** |
| Loans to medium and large corporates | 2,790,742 | 70% | 2,433,080 | 72% | 2,433,080 | 71% |
| Municipality loans | 88,013 | 2% | 88,590 | 3% | 88,590 | 3% |
| **Loans at amortised cost total** | **3,541,430** | **88%** | **3,148,597** | **93%** | **3,365,255** | **99%** |
| **Loans at fair value total** | **480,937** | **12%** | **238,538** | **7%** | **29,731** | **1%** |
| **Gross loans total** | **4,022,367** | **100%** | **3,387,135** | **100%** | **3,394,986** | **100%** |

An analysis of the change in the loss allowance on loans at amortised cost is as follows:

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| **Balance as at 1 January** | **72,066** | **66,241** | **66,241** |
| Reclassification | - | (3,308) | - |
| **Balance as at 1 January** | **72,066** | **62,933** | **66,241** |
| Other movements | - | 1,621 | 1,621 |
| Loss allowance | 217,012 | 125,090 | 134,583 |
| Release of loss allowance | (156,383) | (112,051) | (117,001) |
| Use of loss allowance | (6,228) | - | - |
| Partial write-off | (2,797) | (5,527) | (5,527) |
| **Closing balance** | **123,670** | **72,066** | **79,917** |

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

| | 2020 | 2019 |
|---|---|---|
| Loss allowance on placements with other banks | 2,227 | 1,545 |
| Loss allowance on loans at amortised cost | 59,083 | 32,184 |
| **Total** | **61,310** | **33,729** |

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 39.)

[1] incl. housing loans

## NOTE 11: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Investments in subsidiaries: | | |
| Controlling interest | 1,965,197 | 1,962,010 |
| Other | 8,938 | 8,298 |
| **Subtotal** | **1,974,135** | **1,970,308** |
| Provision for impairment | (425,163) | (427,770) |
| **Total** | **1,548,972** | **1,542,538** |

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

**Significant subsidiaries**

Investments in companies in which the Bank has a controlling interest (direct) are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | % Held (direct/indirect) | Gross book value | % Held (direct/indirect) | Gross book value |
| OTP Bank JSC (Ukraine) | 100% | 311,390 | 100% | 311,390 |
| DSK Bank EAD (Bulgaria) | 100% | 280,692 | 100% | 280,692 |
| OTP banka Hrvatska d.d. (Croatia) | 100% | 205,349 | 100% | 205,349 |
| OTP Mortgage Bank Ltd. | 100% | 154,294 | 100% | 154,294 |
| Vojvodanska Banka ad Novi Sad (Serbia) | 100% | 131,164 | 100% | 131,164 |
| OTP Bank Romania S.A. (Romania) | 100% | 133,987 | 100% | 133,987 |
| OTP Banka Srbija a.d. (Serbia) | 100% | 127,140 | 100% | 127,140 |
| SKB Banka d.d. Ljubljana (Slovenia) | 100% | 107,689 | 100% | 107,372 |
| JSC "OTP Bank" (Russia) | 98% | 74,335 | 98% | 74,335 |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100% | 72,784 | 100% | 72,784 |
| LLC Alliance Reserve (Russia) | 100% | 50,074 | 100% | 50,074 |
| OTP Holding Malta Ltd. | 100% | 32,359 | 100% | 32,359 |
| Balansz Private Open-end Investment Fund | 100% | 29,150 | 100% | 29,150 |
| OTP Banka Slovensko a.s. (Slovakia) | - | - | 99% | 29,134 |
| Bank Center No. 1. Ltd. | 100% | 26,063 | 100% | 26,063 |
| OTP Factoring Ltd. | 100% | 25,411 | 100% | 25,411 |
| Mobiasbanca - OTP Group S.A. (Moldavia) | 98% | 24,159 | 98% | 24,159 |
| Merkantil Bank Ltd. | 100% | 23,663 | 100% | 23,663 |
| Air-Invest Llc. | 100% | 36,748 | 100% | 21,748 |
| Inga Kettő Ltd. | 100% | 17,892 | 100% | 17,892 |
| OTP Life Annuity Ltd. | 100% | 15,300 | 100% | 15,300 |
| OTP Real Estate Ltd. | 100% | 10,023 | 100% | 10,023 |
| OTP Bank Albania (Albania) | 100% | 11,865 | 100% | 11,865 |
| Monicomp Ltd. | 100% | 9,234 | 100% | 9,234 |
| Other | | 54,432 | | 37,428 |
| **Total** | | **1,965,197** | | **1,962,010** |

**NOTE 11: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]**

An analysis of the change in the impairment loss is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **427,770** | **536,075** |
| Provision for the period | 10,052 | 12,503 |
| Release of provision | (10) | (51,310) |
| Use of provision | (12,649) | (69,498) |
| **Closing balance** | **425,163** | **427,770** |

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash flow method ("DCF") that calculates the value of the subsidiaries by discounting their expected cash flow; on the other hand the economic value added ("EVA") method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.
The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

**An analysis of the impairment loss by significant subsidiaries is as follows:**

| | 2020 | 2019 |
|---|---|---|
| OTP Bank JSC (Ukraine) | 207,397 | 207,397 |
| OTP Mortgage Bank Ltd. | 65,096 | 65,096 |
| OTP banka Srbija a.d. (Serbia) | 53,383 | 53,383 |
| Crnogorska komercijalna banka a.d. (Montenegro) | 23,324 | 23,324 |
| OTP Bank Romania S.A. (Romania) | 38,416 | 28,575 |
| OTP Banka Slovensko a.s. (Slovakia) | - | 12,649 |
| Air-Invest Ltd. | 10,491 | 10,491 |
| OTP Life Annuity Ltd. | 10,969 | 10,969 |
| R.E. Four d.o.o. (Serbia) | 3,763 | 3,763 |
| OTP Real Estate Ltd. | 5,557 | 5,557 |
| OTP Buildings s.r.o (Romania) | 3,327 | 3,327 |
| **Total** | **421,723** | **424,531** |

**Dividend income from significant subsidiaries and shares held-for-trading and shares measured at fair value through other comprehensive income is as follows:**

| | 2020 | 2019 |
|---|---|---|
| OTP Factoring Ltd. | 45,463 | 14,665 |
| OTP Holding Malta Ltd. | 4,823 | - |
| OTP Funds Servicing and Consulting Ltd. | 1,894 | - |
| OTP Card Factory Ltd. | 25 | - |
| OTP Real Estate Investment Fund Management Ltd. | 4,000 | 1,500 |
| Inga Kettő Ltd. | - | 4,500 |
| OTP Building Society Ltd. | - | 3,000 |
| OTP Mortgage Bank Ltd. | - | 27,500 |
| OTP banka Hrvatska d.d. (Croatia) | - | 21,170 |
| Other | 908 | 637 |
| **Subtotal** | **60,913** | **72,972** |
| Dividend from shares held-for-trading | 60 | 5,728 |
| Dividend from shares fair value through other comprehensive income | - | 187 |
| **Total** | **60,973** | **78,887** |

**NOTE 11: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]**

**Significant associates and joint ventures**

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1]:

**As at 31 December 2020**

| | D-ÉG Thermoset Kft.[2] | Szallas.hu Kft. | Company for Cash Services Llc. | Total |
|---|---|---|---|---|
| Assets | 3,883 | 5,855 | 2,856 | **12,594** |
| Liabilities | 4,629 | 1,358 | 147 | **6,134** |
| Shareholders' equity | (746) | 4,497 | 2,709 | **6,460** |
| **Total income** | **2,386** | **3,833** | **1,531** | **7,750** |
| *% Held* | *25%* | *47%* | *25%* | |
| **Country / Headquarter** | Hungary, Miskolc | Hungary, Budapest | Bulgaria, Sofia | |

**Activity:**

| | |
|---|---|
| Szallas.hu Ltd. | Web portal services. |
| D-ÉG Thermoset Ltd. | Wholesale of hardware, plumbing and heating equipment and supplies. |
| Company for Cash Services Ltd. | Other financial services, except insurance and pension funding. |

**As at 31 December 2019**

| | D-ÉG Thermoset Kft. | Szallas.hu Kft. | Company for Cash Services Llc. | Total |
|---|---|---|---|---|
| Assets | 3,883 | 4,939 | 2,736 | **11,558** |
| Liabilities | 4,629 | 1,429 | 186 | **6,244** |
| Shareholders' equity | (746) | 3,510 | 2,550 | **5,314** |
| **Total income** | **2,386** | **3,405** | **1,315** | **7,106** |
| *% Held* | *25%* | *50%* | *25%* | |
| **Country / Headquarter** | Hungary, Miskolc | Hungary, Budapest | Bulgaria, Sofia | |

The transaction, based on the share purchase agreement signed with KBC Bank NV on 17 February 2020, has been financially closed, as a result of which the 99.44% shareholding in its Slovakian subsidiary, OTP Banka Slovensko was acquired by KBC Bank NV.

[1] Based on unaudited financial statements.
[2] D-ÉG Thermosek Kft. is under liquidation. The figures are the last figures available.

## NOTE 12: SECURITIES AT AMORTISED COST (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Government bonds | 1,947,821 | 1,436,455 |
| Other bonds | 63,159 | 12,212 |
| **Subtotal** | **2,010,980** | **1,448,667** |
| Loss allowance | (3,288) | (1,443) |
| **Total** | **2,007,692** | **1,447,224** |

Interest conditions and the remaining maturities of securities at amortised cost can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| fixed interest | 57,746 | 102,296 |
| | **57,746** | **102,296** |
| Over one year: | | |
| fixed interest | 1,953,234 | 1,346,371 |
| | **1,953,234** | **1,346,371** |
| **Total** | **2,010,980** | **1,448,667** |

The distribution of the securities at amortised cost by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Securities at amortised cost denominated in HUF | 99% | 100% |
| Securities at amortised cost denominated in foreign currency | 1% | - |
| **Securities at amortised cost total** | **100%** | **100%** |
| Interest rates on securities at amortised cost | 0,5%-7% | 0,5%-7,5% |
| Average interest on securities at amortised cost denominated in HUF | 2.69% | 3.31% |

An analysis of change in the loss allowance on securities at amortised cost:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **1,443** | **1,668** |
| Loss allowance | 4,822 | 338 |
| Release of loss allowance | (2,977) | (563) |
| **Closing balance** | **3,288** | **1,443** |

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)**

**For the year ended 31 December 2020**

| | Intangible assets | Property | Office equipment | Vehicles | Construction in progress | Right of use assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Balance as at 1 January** | **139,026** | **69,380** | **87,235** | **126** | **10,523** | **17,827** | **324,117** |
| Additions | 54,651 | 3,858 | 10,766 | 35 | 13,556 | 4,764 | 87,630 |
| Disposals | (28,802) | (961) | (4,123) | (1) | (14,658) | (148) | (48,693) |
| **Balance as at 31 December** | **164,875** | **72,277** | **93,878** | **160** | **9,421** | **22,443** | **363,054** |
| **Depreciation and Amortization** | | | | | | | |
| **Balance as at 1 January** | **85,744** | **22,948** | **66,506** | **56** | **-** | **4,220** | **179,474** |
| Charge for the year | 21,492 | 3,192 | 9,495 | 19 | - | 4,750 | 38,948 |
| Disposals | - | (351) | (4,102) | (1) | - | (6) | (4,460) |
| **Balance as at 31 December** | **107,236** | **25,789** | **71,899** | **74** | **-** | **8,964** | **213,962** |
| **Net book value** | | | | | | | |
| **Balance as at 1 January** | **53,282** | **46,432** | **20,799** | **20,729** | **10,523** | **13,607** | **144,643** |
| **Balance as at 31 December** | **57,639** | **46,488** | **22,065** | **21,979** | **9,421** | **13,479** | **149,092** |

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2019**

| | Intangible assets | Property | Office equipment | Vehicles | Construction in progress | Right of use assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Balance as at 1 January** | **115,272** | **66,925** | **80,862** | **99** | **7,010** | **16,296** | **286,464** |
| Additions | 28,104 | 5,993 | 10,744 | 27 | 20,375 | 1,638 | 66,881 |
| Disposals | (4,350) | (3,538) | (4,371) | - | (16,862) | (107) | (29,228) |
| **Balance as at 31 December** | **139,026** | **69,380** | **87,235** | **126** | **10,523** | **17,827** | **324,117** |
| **Depreciation and Amortization** | | | | | | | |
| **Balance as at 1 January** | **75,389** | **21,718** | **62,694** | **42** | **-** | **-** | **159,843** |
| Charge for the year | 14,682 | 2,867 | 8,137 | 15 | - | 4,224 | 29,925 |
| Disposals | (4,327) | (1,637) | (4,326) | - | - | (4) | (10,294) |
| **Balance as at 31 December** | **85,744** | **22,948** | **66,505** | **57** | **-** | **4,220** | **179,474** |
| **Net book value** | | | | | | | |
| **Balance as at 1 January** | **39,883** | **45,207** | **18,168** | **57** | **7,010** | **16,296** | **126,621** |
| **Balance as at 31 December** | **53,282** | **46,432** | **20,730** | **69** | **10,523** | **13,607** | **144,643** |

The Bank has no intangible assets with indefinite useful life.

## NOTE 14: INVESTMENT PROPERTIES (in HUF mn)

**For the year ended 31 December 2020 and 2019, respectively**

| | 2020 | 2019 |
|---|---|---|
| **Property** | | |
| **Cost** | | |
| **Balance as at 1 January** | **3,061** | **2,964** |
| Additions result from subsequent expenditure | 38 | 97 |
| Disposals | (522) | - |
| **Balance as at 31 December** | **2,577** | **3,061** |
| **Depreciation and Amortization** | | |
| **Balance as at 1 January** | **680** | **631** |
| Charge for the year | 51 | 49 |
| Disposals | (90) | - |
| **Balance as at 31 December** | **641** | **680** |
| **Net book value** | | |
| **Balance as at 1 January** | **2,381** | **2,333** |
| **Balance as at 31 December** | **1,936** | **2,381** |

According to the opinion of the Management there is no significant difference between the fair value and the carrying value of these properties.

| ***Income and Expenses*** | **2020** | **2019** |
|---|---|---|
| Rental income | 6 | 6 |
| Depreciation | 49 | 48 |

## NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Positive fair value of derivative financial assets designated as hedge accounting:

| | 2020 | 2019 |
|---|---|---|
| Interest rate swaps designated as fair value hedge | 637 | 3,758 |
| CCIRS designated as fair value hedge | 6,180 | 3,705 |
| Interest rate swaps designated as cash flow hedge | - | 9,214 |
| **Total** | **6,817** | **16,677** |

## NOTE 16: OTHER ASSETS[1] (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Other financial assets** | | |
| Receivables from OTP Employee Stock Ownership Program (OTP ESOP) | 53,338 | 33,722 |
| Receivables from card operations | 8,453 | 9,804 |
| Accrued day one gain of loans provided at below-market interest | 14,465 | 10,227 |
| Stock exchange deposit | 9,667 | 5,708 |
| Prepayments and accrued income | 14,396 | 2,938 |
| Trade receivables | 8,233 | 17,200 |
| Receivables from suppliers | 5,885 | 3,520 |
| Receivables from OTP Mortgage Bank Ltd. | 1,823 | 3,823 |
| Other | 18,847 | 8,186 |
| | **135,107** | **95,128** |
| Loss allowance | (7,928) | (5,646) |
| **Other financial assets total** | **127,179** | **89,482** |
| **Other non-financial assets** | | |
| Prepayments and accrued income | 17,732 | 6,986 |
| Receivable related to Hungarian Government subsidies | 10,622 | 16,793 |
| Other | 14,743 | 3,902 |
| | **43,097** | **27,681** |
| Provision for impairment on other assets | (482) | (464) |
| **Other non-financial assets total** | **42,615** | **27,217** |
| **Total** | **169,794** | **116,699** |

An analysis of the movement in the loss allowance on other financial assets is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **5,646** | **7,362** |
| Other movements[2] | - | (1,621) |
| Charge for the period | 6,790 | 3,383 |
| Release of loss allowance | (3,971) | (2,391) |
| Use of loss allowance | (537) | (1,087) |
| **Balance as at 31 December** | **7,928** | **5,646** |

An analysis of the movement in the loss allowance on other non-financial assets is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **464** | **59** |
| Charge for the period | 81 | 443 |
| Release of provision | (63) | (38) |
| **Balance as at 31 December** | **482** | **464** |

[1] Other assets are expected to be recovered or settled no more than twelve months after the reporting period.
[2] For further information please see the analysis of the change in the loss allowance on loans at amortised cost in Note 10.

## NOTE 17: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 172,798 | 358,641 |
| In foreign currency | 41,643 | 136,922 |
| | **214,441** | **495,563** |
| Over one year: | | |
| In HUF | 457,883 | 94,823 |
| In foreign currency | 94,653 | 147,668 |
| | **552,536** | **242,491** |
| **Subtotal** | **766,977** | **738,054** |
| **Total[1]** | **766,977** | **738,054** |

Interest rates on amounts due to banks and deposits from the NBH and other banks are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 0% - 20% | (0.03%)-0.9% |
| In foreign currency | (0.56%) - 0.26% | (0.89%)-8.49% |
| Over one year: | | |
| In HUF | (2.4%) - 1.43% | 0%-0.71% |
| In foreign currency | (2.4%) - 4.84% | (0.42%)-6.87% |
| Average interest on amounts due to banks in HUF | (0.94%) | 1.00% |
| Average interest on amounts due to banks in foreign currency | (2.11%) | 2.05% |

## NOTE 18: REPO LIABILITIES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | - | 20,575 |
| | - | **20,575** |
| Over one year: | | |
| In HUF | - | 263,554 |
| In foreign currency | 109,612 | 178,492 |
| | **109,612** | **442,046** |
| **Subtotal** | **109,612** | **462,621** |
| **Total** | **109,612** | **462,621** |

Interest rates on repo liabilities are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | - | (0.85%)-0.14% |
| In foreign currency | - | (1%) |
| Over one year: | | |
| In HUF | - | 0.39%-0.71% |
| In foreign currency | 0.63%-3.85% | (0.45%)-1.92% |
| Average interest on repo liabilities in HUF | 1.21% | 1.19% |
| Average interest on repo liabilities in foreign currency | 1.05% | 1.24% |

[1] It contains the loans lent among the frame of Funding for Growth Scheme.

## NOTE 19: DEPOSITS FROM CUSTOMERS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 6,412,898 | 5,437,453 |
| In foreign currency | 1,438,254 | 1,092,329 |
| | **7,851,152** | **6,529,782** |
| Over one year: | | |
| In HUF | 44,583 | 43,768 |
| | **44,583** | **43,768** |
| **Subtotal** | **7,895,735** | **6,573,550** |

Interest rates on deposits from customers are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Within one year in HUF | (4.58%)-7.96% | (3.13%)-7.96% |
| Over one year in HUF | 0.01%-0.4% | (5.09%)-7.96% |
| In foreign currency | (0.58%)-15.5% | (0.6%)-21% |
| | | |
| Average interest on deposits from customers in HUF | (0.07%) | 0.04% |
| Average interest on deposits from customers in foreign currency | (0.04%) | 0.21% |

An analysis of deposits from customers by type, not including accrued interest, is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Retail deposits** | **3,840,950** | **49%** | **3,204,450** | **49%** |
| Household deposits | 3,840,950 | 49% | 3,204,450 | 49% |
| **Corporate deposits** | **4,054,785** | **51%** | **3,369,100** | **51%** |
| Deposits to medium and large corporates | 3,301,434 | 41% | 2,729,209 | 42% |
| Municipality deposits | 753,351 | 10% | 639,891 | 10% |
| **Total** | **7,895,735** | **100%** | **6,573,550** | **100%** |

## NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 11,115 | 18,340 |
| In foreign currency | 1,356 | 3,753 |
| | **12,471** | **22,093** |
| Over one year: | | |
| In HUF | 15,964 | 21,191 |
| | **15,964** | **21,191** |
| **Total** | **28,435** | **43,284** |

Interest rates on liabilities from issued securities are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Issued securities denominated in HUF | 0%-1.7% | 0%-1.7% |
| Issued securities denominated in foreign currency | 0.01%-0.01% | 1.1%-1.48% |
| | | |
| Average interest on issued securities denominated in HUF | 1.18% | 0.39% |
| Average interest on issued securities denominated in foreign currency | 1.12% | 1.87% |

**NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]**

**Term Note Program in the value of HUF 200 billion for the year of 2020/2021**

On 21 April 2020 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 9 July 2020 the prospectus of Term Note Program and the disclosure as at 10 July 2020. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian and to other stock exchanges without any obligations.

**Term Note Program in the value of HUF 200 billion for the year of 2019/2020**

On 25 June 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 28 June 2019 the prospectus of Term Note Program and the disclosure as at 16 August 2019. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

**Hedge accounting**

Certain issued structured securities are hedged by the Bank with interest rate swaps ("IRS") which exchange the fixed and floating interest rate with the interest rate of the securities between the parties at a notional amount that equals the nominal amount of the hedged securities. These are considered as fair value hedge relationships as they cover the interest rate risk arising from the coupons of the hedged securities. OTP Bank does not intend to be exposed to the risk embedded in the structured bonds, consequently as part of interest rate swap transaction the structured interest payments are swapped to floating interest rate. This hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item

The cash-flows of the fixed rate securities issued by the Bank are exposed to the changes in the HUF/EUR foreign exchange rate and the volatility of the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

## NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in HUF as at 31 December 2020 (in HUF mn)

| | Name | Date of issuance | Maturity | Nominal value in HUF million | Amortised cost in HUF million | Interest conditions | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 1 | OTP_DK_21/I | 15/12/2018 | 31/05/2021 | 3,520 | 3,501 | discount | | |
| 2 | OTP_DK_22/II | 29/05/2020 | 31/05/2022 | 3,175 | 3,133 | discount | | |
| 3 | OTPRF2021B | 20/10/2011 | 25/10/2021 | 2,894 | 2,954 | indexed | - | hedged |
| 4 | OTPRF2021A | 05/07/2011 | 13/07/2021 | 2,607 | 2,807 | indexed | - | hedged |
| 5 | OTPRF2022A | 22/03/2012 | 23/03/2022 | 2,065 | 1,920 | indexed | 1.70 | hedged |
| 6 | OTP_DK_23/II | 29/05/2020 | 31/05/2023 | 997 | 970 | discount | | |
| 7 | OTP_DK_22/I | 15/12/2018 | 31/05/2022 | 993 | 965 | discount | | |
| 8 | OTPRF2022B | 22/03/2012 | 23/03/2022 | 831 | 772 | indexed | 1.70 | hedged |
| 9 | OTPRF2023A | 22/03/2013 | 24/03/2023 | 787 | 740 | indexed | 1.70 | hedged |
| 10 | OTPRF2022E | 29/10/2012 | 31/10/2022 | 761 | 715 | indexed | 1.70 | hedged |
| 11 | OTP_DK_23/I | 15/12/2018 | 31/05/2023 | 717 | 679 | discount | | |
| 12 | OTPRF2022F | 28/12/2012 | 28/12/2022 | 623 | 592 | indexed | 1.70 | hedged |
| 13 | OTP_DK_24/II | 29/05/2020 | 31/05/2024 | 592 | 566 | discount | | |
| 14 | OTP_DK_25/II | 29/05/2020 | 31/05/2025 | 592 | 555 | discount | | |
| 15 | OTPRF2021C | 21/12/2011 | 30/12/2021 | 527 | 544 | indexed | - | hedged |
| 16 | OTPX2022B | 18/07/2012 | 18/07/2022 | 172 | 440 | indexed | 1.70 | hedged |
| 17 | OTP_DK_24/I | 30/05/2019 | 31/05/2024 | 426 | 390 | discount | | |
| 18 | OTPRF2021D | 21/12/2011 | 30/12/2021 | 372 | 381 | indexed | - | hedged |
| 19 | OTPX2021B | 17/06/2011 | 21/06/2021 | 245 | 370 | indexed | - | hedged |
| 20 | OTP_DK_26/I | 29/05/2020 | 31/05/2026 | 392 | 361 | discount | | |
| 21 | OTPX2023A | 22/03/2013 | 24/03/2023 | 324 | 327 | indexed | 1.70 | hedged |
| 22 | OTPX2021D | 21/12/2011 | 27/12/2021 | 259 | 325 | indexed | - | hedged |
| 23 | OTPX2022D | 28/12/2012 | 27/12/2022 | 248 | 299 | indexed | 1.70 | hedged |
| 24 | OTPX2024B | 10/10/2014 | 16/10/2024 | 295 | 284 | indexed | 0.70 | hedged |
| 25 | OTPRF2022D | 28/06/2012 | 28/06/2022 | 260 | 251 | indexed | 1.70 | hedged |
| 26 | OTPX2021A | 01/04/2011 | 01/04/2021 | 183 | 246 | indexed | - | hedged |
| 27 | OTPX2024A | 18/06/2014 | 21/06/2024 | 241 | 237 | indexed | 1.30 | hedged |
| 28 | OTPX2022C | 29/10/2012 | 28/10/2022 | 201 | 233 | indexed | 1.70 | hedged |
| 29 | OTPX2024C | 15/12/2014 | 20/12/2024 | 242 | 232 | indexed | 0.60 | hedged |
| 30 | OTPX2023B | 28/06/2013 | 26/06/2023 | 198 | 225 | indexed | 0.60 | hedged |
| 31 | OTPX2022A | 22/03/2012 | 23/03/2022 | 201 | 214 | indexed | - | hedged |
| 32 | OTPRF2022C | 28/06/2012 | 28/06/2022 | 190 | 196 | indexed | 1.70 | hedged |
| 33 | OTPX2021C | 19/09/2011 | 24/09/2021 | 231 | 192 | indexed | - | hedged |
| 34 | OTP_DK_25/I | 30/05/2019 | 31/05/2025 | 104 | 91 | discount | | |
| 35 | OTP_DK_27/I | 29/05/2020 | 31/05/2027 | 95 | 85 | discount | | |
| 36 | OTPRF2021E | 21/12/2011 | 30/12/2021 | 76 | 74 | indexed | - | hedged |
| 37 | Other | | | 213 | 213 | indexed | | |
| | **Subtotal issued securities in HUF** | | | **26,849** | **27,079** | | | |
| | **Total** | | | **28,205** | **28,435** | | | |

## NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in HUF as at 31 December 2019 (in HUF mn)

| | Name | Date of issuance | Maturity | Nominal value in HUF million | Amortised cost in HUF million | Interest conditions | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 1 | OTPX2020E | 18/06/2014 | 22/06/2020 | 2,939 | 2,903 | indexed | 0.70 | hedged |
| 2 | OTP_DK_21/I | 15/12/2018 | 31/05/2021 | 3,520 | 3,451 | discount | | |
| 3 | OTPRF2021B | 20/10/2011 | 25/10/2021 | 2,654 | 2,858 | indexed | | hedged |
| 4 | OTPX2020F | 10/10/2014 | 16/10/2020 | 2,650 | 2,551 | indexed | 0.20 | hedged |
| 5 | OTPRF2020C | 11/11/2010 | 05/11/2020 | 2,622 | 2,662 | indexed | | hedged |
| 6 | OTPRF2021A | 05/07/2011 | 13/07/2021 | 2,402 | 2,804 | indexed | | hedged |
| 7 | OTPX2020G | 15/12/2014 | 21/12/2020 | 2,371 | 2,273 | indexed | 0.30 | hedged |
| 8 | OTP_DK_20/I | 15/12/2018 | 31/05/2020 | 3,295 | 3,282 | discount | | |
| 9 | OTPRF2020A | 12/07/2010 | 20/07/2020 | 2,152 | 2,252 | indexed | | hedged |
| 10 | OTPRF2022A | 22/03/2012 | 23/03/2022 | 1,869 | 1,797 | indexed | 1.70 | hedged |
| 11 | OTPRF2020B | 12/07/2010 | 20/07/2020 | 1,276 | 1,429 | indexed | | hedged |
| 12 | OTPRF2023A | 22/03/2013 | 24/03/2023 | 760 | 746 | indexed | 1.70 | hedged |
| 13 | OTPRF2022B | 22/03/2012 | 23/03/2022 | 728 | 698 | indexed | 1.70 | hedged |
| 14 | OTPRF2022E | 29/10/2012 | 31/10/2022 | 661 | 645 | indexed | 1.70 | hedged |
| 15 | OTP_DK_22/I | 15/12/2018 | 31/05/2022 | 993 | 946 | discount | | |
| 16 | OTP_DK_23/I | 15/12/2018 | 31/05/2023 | 717 | 664 | discount | | |
| 17 | OTPRF2022F | 28/12/2012 | 28/12/2022 | 538 | 532 | indexed | 1.70 | hedged |
| 18 | OTPRF2021C | 21/12/2011 | 30/12/2021 | 505 | 558 | indexed | | hedged |
| 19 | OTP_DK_24/I | 30/05/2019 | 31/05/2024 | 426 | 380 | discount | | |
| 20 | OTPRF2021D | 21/12/2011 | 30/12/2021 | 357 | 385 | indexed | | hedged |
| 21 | OTPX2023A | 22/03/2013 | 24/03/2023 | 340 | 370 | indexed | 1.70 | hedged |
| 22 | OTPX2024B | 10/10/2014 | 16/10/2024 | 311 | 302 | indexed | 0.70 | hedged |
| 23 | OTPX2021D | 21/12/2011 | 27/12/2021 | 274 | 305 | indexed | | hedged |
| 24 | OTPX2020B | 28/06/2010 | 09/07/2020 | 267 | 285 | indexed | | hedged |
| 25 | OTPX2022D | 28/12/2012 | 27/12/2022 | 265 | 379 | indexed | 1.70 | hedged |
| 26 | OTPX2024C | 15/12/2014 | 20/12/2024 | 259 | 249 | indexed | 0.60 | hedged |
| 27 | OTPX2021B | 17/06/2011 | 21/06/2021 | 255 | 424 | indexed | | hedged |
| 28 | OTPRF2022D | 28/06/2012 | 28/06/2022 | 249 | 278 | indexed | 1.70 | hedged |
| 29 | OTPX2024A | 18/06/2014 | 21/06/2024 | 241 | 253 | indexed | 1.30 | hedged |
| 30 | OTPX2020A | 25/03/2010 | 30/03/2020 | 238 | 326 | indexed | | hedged |
| 31 | OTPX2021C | 19/09/2011 | 24/09/2021 | 231 | 198 | indexed | | hedged |
| 32 | OTPX2022A | 22/03/2012 | 23/03/2022 | 217 | 235 | indexed | | hedged |
| 33 | OTPX2022C | 29/10/2012 | 28/10/2022 | 217 | 278 | indexed | 1.70 | hedged |
| 34 | OTPX2023B | 28/06/2013 | 26/06/2023 | 214 | 268 | indexed | 0.60 | hedged |
| 35 | OTPX2021A | 01/04/2011 | 01/04/2021 | 192 | 253 | indexed | | hedged |
| 36 | OTPX2022B | 18/07/2012 | 18/07/2022 | 183 | 318 | indexed | 1.70 | hedged |
| 37 | OTPX2020D | 16/12/2010 | 18/12/2020 | 177 | 193 | indexed | | hedged |
| 38 | OTPRF2022C | 28/06/2012 | 28/06/2022 | 171 | 205 | indexed | 1.70 | hedged |
| 39 | OTPX2020C | 11/11/2010 | 05/11/2020 | 166 | 221 | indexed | | hedged |
| 40 | OTP_DK_25/I | 30/05/2019 | 31/05/2025 | 104 | 89 | discount | | |
| 41 | OTPRF2021E | 21/12/2011 | 30/12/2021 | 67 | 68 | indexed | | hedged |
| 42 | Other | | | 218 | 218 | | | |
| | **Subtotal issued securities in HUF** | | | **38,291** | **39,531** | | | |
| | **Total** | | | **42,034** | **43,284** | | | |

## NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in foreign currency as at 31 December 2020 (in HUF mn)

| | Name | Date of issuance | Maturity | Currency | Nominal value in FX million | Nominal value in HUF million | Amortised cost in FX million | Amortised cost in HUF million | Interest conditions (in % actual) | hedged |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | OTP_VK1_21/1 | 20/02/2020 | 20/02/2021 | USD | 1.39 | 414 | 1.39 | 414 | variable | 0.01 |
| 2 | OTP_VK1_21/2 | 02/04/2020 | 02/04/2021 | USD | 1.24 | 370 | 1.24 | 370 | variable | 0.01 |
| 3 | OTP_VK1_21/3 | 14/05/2020 | 14/05/2021 | USD | 1.18 | 351 | 1.18 | 351 | variable | 0.01 |
| 4 | OTP_VK1_21/4 | 18/06/2020 | 18/06/2021 | USD | 0.74 | 221 | 0.74 | 221 | variable | 0.01 |
| | **Subtotal issued securities in foreign currency** | | | | **4.55** | **1,356** | **4.55** | **1,356** | | |

### Issued securities denominated in foreign currency as at 31 December 2019 (in HUF mn)

| | Name | Date of issuance | Maturity | Currency | Nominal value in FX million | Nominal value in HUF million | Amortised cost in FX million | Amortised cost in HUF million | Interest conditions (in % actual) | hedged |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | OTP_VK1_20/2 | 04/04/2019 | 04/04/2020 | USD | 2.47 | 727 | 2.48 | 731 | variable | 1.42 |
| 2 | OTP_VK1_20/5 | 15/08/2019 | 15/08/2020 | USD | 2.00 | 589 | 2.01 | 591 | variable | 1.20 |
| 3 | OTP_VK1_20/4 | 27/06/2019 | 27/06/2020 | USD | 1.87 | 552 | 1.87 | 552 | variable | 1.32 |
| 4 | OTP_VK1_20/7 | 07/11/2019 | 07/11/2020 | USD | 1.68 | 494 | 1.68 | 495 | variable | 1.10 |
| 5 | OTP_VK1_20/1 | 21/02/2019 | 21/02/2020 | USD | 1.53 | 450 | 1.54 | 452 | variable | 1.48 |
| 6 | OTP_VK1_20/8 | 19/12/2019 | 19/12/2020 | USD | 1.52 | 448 | 1.52 | 448 | variable | 1.10 |
| 7 | OTP_VK1_20/3 | 16/05/2019 | 16/05/2020 | USD | 0.89 | 263 | 0.89 | 263 | variable | 1.32 |
| 8 | OTP_VK1_20/6 | 26/09/2019 | 26/09/2020 | USD | 0.75 | 220 | 0.75 | 221 | variable | 1.20 |
| | **Subtotal issued securities in foreign currency** | | | | **12.71** | **3,743** | **12.74** | **3,753** | | |

## NOTE 21: FINANCIAL LIABILITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 2,010 | 2,679 |
| | **2,010** | **2,679** |
| Over one year: | | |
| In HUF | 23,892 | 26,182 |
| | **23,892** | **26,182** |
| **Subtotal** | **25,902** | **28,861** |

Interest rates on financial liabilities designated as fair value through profit or loss are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Within one year: | | |
| In HUF | 0.51% - 2.5% | 0.01%-2.59% |
| Over one year: | | |
| In HUF | 0% - 2.5% | 0.01%-2.59% |
| Average interest on amounts due to banks in HUF | 2.46% | 1.34% |

## NOTE 22: HELD FOR TRADING DERIVATIVE FINANCIAL LIABILITIES (in HUF mn)

Negative fair value of held for trading derivative financial liabilities by deal types:

| | 2020 | 2019 |
|---|---|---|
| Interest rate swaps | 28,812 | 42,841 |
| Foreign currency swaps | 34,327 | 29,084 |
| CCIRS and mark-to-market CCIRS | 7,285 | 1,037 |
| Other derivative contracts[1] | 29,563 | 10,126 |
| **Total** | **99,987** | **83,088** |

## NOTE 23: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Fair value of derivative financial liabilities designated as hedge accounting is detailed as follows:

| | 2020 | 2019 |
|---|---|---|
| IRS designated as fair value hedge | 5,266 | 8,265 |
| CCIRS designated as fair value hedge | 5,865 | 1,758 |
| IRS designated as cash flow hedge | (8,027) | - |
| **Total** | **3,104** | **10,023** |

[1] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

## NOTE 24: OTHER LIABILITIES[1] (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Other financial liabilities** | | |
| Liabilities from investment services | 62,490 | 101,417 |
| Accounts payable | 24,121 | 20,742 |
| Accrued expenses | 15,473 | 16,517 |
| Provision on off-balance sheet commitments, contingent liabilities | 17,490 | 14,288 |
| Liabilities from customer's credit card payments | 11,195 | 10,753 |
| Accrued day one gain of loan liabilities at below-market interest | 14,391 | 10,177 |
| Liabilities due to short positions | 9,131 | 7,040 |
| Other | 13,249 | 10,157 |
| **Other financial liabilities total** | **167,540** | **191,091** |
| | | |
| **Other non-financial liabilities** | | |
| Technical accounts | 37,304 | 34,025 |
| Current income tax payable | 9,680 | 9,633 |
| Social contribution | 3,746 | 4,130 |
| Provision on off-balance sheet commitments, contingent liabilities | 2,416 | 2,508 |
| Other | 4,211 | 2,393 |
| **Other non-financial liabilities total** | **57,357** | **52,689** |
| | | |
| **Other liabilities total** | **224,897** | **243,780** |

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

| | 2020 | 2019 |
|---|---|---|
| Provision for losses on other off-balance sheet commitments and contingent liabilities | 17,490 | 14,288 |
| **Provisions in accordance with IFRS 9** | **17,490** | **14,288** |
| Provision for litigation | 199 | 663 |
| Provision for retirement pension and severance pay | 1,300 | 1,000 |
| Provision on other liabilities | 917 | 845 |
| **Provisions in accordance with IAS 37** | **2,416** | **2,508** |
| **Total** | **19,906** | **16,796** |

Movements in the provision for losses on commitments and contingent liabilities in accordance with IFRS 9 can be summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| **Opening balance** | **14,288** | **8,494** |
| Provision for the period | 57,246 | 29,517 |
| Release of provision for the period | (54,044) | (23,723) |
| **Closing balance** | **17,490** | **14,288** |

Movements in the provision for losses on commitments and contingent liabilities in accordance with IAS 37 can be summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| **Opening balance** | **2,508** | **2,891** |
| Provision for the period | 20,970 | 1,252 |
| Release of provision | (21,062) | (130) |
| Use of provision | - | (1,505) |
| **Closing balance** | **2,416** | **2,508** |

[1] Other liabilities are expected to be recovered or settled no more than twelve months after the reporting period.

## NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In foreign currency | 2,972 | 2,695 |
| Over one year | | |
| In foreign currency | 301,271 | 276,699 |
| **Total** | **304,243** | **279,394** |

Interest rates on subordinated bonds and loans are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Subordinated bonds and loans denominated in foreign currency | 2.5%-2.9% | 2.6% - 2.9% |
| Average interest on subordinated bonds and loans denominated in foreign currency | 2.74% | 2.73% |

Subordinated loans and bonds are detailed as follows as at 31 December 2020:

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Current interest rate |
|---|---|---|---|---|---|---|
| Subordinated bond | EUR 327.8 million | 7 November 2006 | Perpetual | 99.875% | Three-month EURIBOR + 3%, variable (payable quarterly) | 2.484% |
| Subordinated bond | EUR 499.8 million | 15 July 2019 | 15 July 2029 | 99.738% | Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the and of the 5 year. | 2.875% |

## NOTE 26: SHARE CAPITAL (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |

The nominal value of the shares is HUF 100 per shares. All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore there are no restrictions on the distribution of dividends and the repayment of capital.

## NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

NBH warns the financial institutions in an excecutive circular dated 8 January 2021 not to pay or enter into an irrevocable obligation of dividend payment based on the performance for the financial years ended 2019 and 2020, or any reserves cumulated from previous years until 30 September 2021. Furthermore NBH warns to stop treasury share purchases (except share purchase related to share based payment programs) until 30 September 2021 too.

The intention of the Management is paying HUF 119,248 million dividend (for the year ended 2019 HUF 69,440 million and for the year ended 2020 HUF 49,808 million) regarding which - in accordance with the NBH circular - the Bank doesn't enter into an irrevocable obligation. Accordingly it remains as part of the shareholders' equity until the obligation hasn't been settled.

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

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretional right to cancel the payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the period of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

### Share capital

Share capital is the portion of the Bank's equity that has been obtained by the issue of shares in the corporation to a shareholder, usually for cash.

### Share-based payment reserve

Share-based payment reserve represents the increase in the equity due to the goods or services were received by the Bank in an equity-settled share-based payment transaction, valued at the fair value of the goods or services received.

## NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

**Retained earnings**

Profit of previous years generated by the Bank that are not distributed to shareholders as dividends.

**Put option reserve**

OTP Bank Plc. and MOL Plc. entered into a share swap agreement in 16 April 2009, whereby OTP has changed 24,000,000 OTP ordinary shares for 5,010,501 „A series" MOL shares. The final maturity of the share swap agreement is 11 July 2022, until which any party can initiate cash or physical settlement of the transaction.
Put option reserve represents the written put option over OTP ordinary shares were accounted as a deduction from equity at the date of OTP-MOL share swap transaction.

**Other comprehensive income**

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

**General reserve**

The Bank shall place ten per cent of the after-tax profit of the year into general reserve prescribed by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The Bank is allowed to use general reserves only to cover operating losses arising from their activities.

**Tied-up reserve**

The tied-up reserve shall consist of sums tied up from the capital reserve and from the retained earnings.

**NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]**

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

| 31 December 2020 | Share Capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Option reserve | Treasury Shares | Revaluation reserve | Tied-up reserve | Net profit for the year | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Components of Shareholder's equity in accordance with IFRS** | **28,000** | **52** | **42,573** | **1,709,976** | **(55,468)** | **(46,799)** | **-** | **-** | **-** | **1,678,334** |
| Unused portion of reserve for developments | - | - | - | (998) | - | - | - | 998 | - | - |
| Other comprehensive income | - | - | - | (44,356) | - | - | 44,356 | - | - | - |
| Option reserve | - | (55,468) | - | - | 55,468 | - | - | - | - | - |
| Treasury shares | - | (46,799) | - | - | - | 46,799 | - | - | - | - |
| Share based payments | - | 42,573 | (42,573) | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | (92,474) | - | - | - | - | 92,474 | - |
| General reserve | - | - | - | (105,371) | - | - | - | 105,371 | - | - |
| **Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting** | **28,000** | **(59,642)** | **-** | **1,466,777** | **-** | **-** | **44,356** | **106,369** | **92,474** | **1,678,334** |

**NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]**

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2020:

| 1 January 2020 | Share Capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Option reserve | Treasury Shares | Revaluation reserve | Tied-up reserve | Net profit for the year | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Components of Shareholder's equity in accordance with IFRS** | **28,000** | **52** | **39,179** | **1,644,591** | **(55,468)** | **(2,636)** | **-** | **-** | **-** | **1,653,718** |
| Unused portion of reserve for developments | - | - | - | (1,473) | - | - | - | 1,473 | - | - |
| Other comprehensive income | - | - | - | (62,975) | - | - | 62,975 | - | - | - |
| Portion of supplementary payment recognised as an asset | - | - | - | (310) | - | - | - | - | - | **(310)** |
| Option reserve | - | (55,468) | - | - | 55,468 | - | - | - | - | - |
| Treasury shares | - | (2,636) | - | - | - | 2,636 | - | - | - | - |
| Share based payments | - | 39,179 | (39,179) | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | (193,354) | - | - | - | - | 193,354 | - |
| General reserve | - | - | - | (96,115) | - | - | - | 96,115 | - | - |
| **Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting** | **28,000** | **(18,873)** | **-** | **1,290,364** | **-** | **-** | **62,975** | **97,588** | **193,354** | **1,653,408** |

## NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

**Calculated untied retained earnings in accordance with paragraph 114/B of Act on Accounting**

| | 2020 | 2019 |
|---|---|---|
| Calculated retained earnings | 1,466,777 | 1,290,364 |
| Net profit for the year | 92,474 | 193,354 |
| **Untied retained earnings** | **1,559,251** | **1,483,718** |

**Items of retained earnings and other reserves**

| | 2020 | 2019 |
|---|---|---|
| Retained earnings | 1,465,037 | 1,289,112 |
| Capital reserve | 52 | 52 |
| Option reserve | (55,468) | (55,468) |
| Other reserves | 105,370 | 96,115 |
| Fair value of financial instruments measured at fair value through other comprehensive income | 44,356 | 62,975 |
| Share-based payment reserve | 42,573 | 39,179 |
| Fair value of derivative financial instruments designated as cash-flow hedge | 2,739 | 3,035 |
| Net profit for the period | 92,474 | 193,354 |
| **Retained earnings and other reserves** | **1,697,133** | **1,628,354** |

**Fair value adjustment of securities at fair value through other comprehensive income**

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | 51,011 | 35,675 |
| Change of fair value correction | (22,069) | 8,481 |
| Deferred tax related to change of fair value correction | 1,973 | (796) |
| Transfer to profit or loss due to derecognition | 6,073 | 8,408 |
| Deferred tax related to accumulated transfer to profit or loss | (547) | (757) |
| **Closing balance** | **36,441** | **51,011** |

**Expected credit loss on securities at fair value through other comprehensive income**

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | 1,702 | 1,859 |
| Increase of loss allowance | 795 | 550 |
| Release of loss allowance | (783) | (707) |
| **Closing balance** | **1,714** | **1,702** |

**Fair value changes of equity instruments as at fair value through other comprehensive income**

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | 10,262 | 6,743 |
| Change of fair value correction | (3,276) | 3,867 |
| Deferred tax related to change of fair value correction | 310 | (348) |
| Transfer to retained earnings | (1,095) | - |
| **Closing balance** | **6,201** | **10,262** |

## NOTE 28: TREASURY SHARES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Nominal value (ordinary shares) | 433 | 32 |
| Carrying value at acquisition cost | 46,799 | 2,636 |

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares:

| | 2020 | 2019 |
|---|---|---|
| **Number of shares as at 1 January** | **320,165** | **169,852** |
| Additions | 8,296,388 | 2,979,754 |
| Disposals | (4,285,384) | (2,829,441) |
| **Number of shares at the end of the period** | **4,331,169** | **320,165** |

| Change in carrying value: | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **2,636** | **1,964** |
| Additions | 85,922 | 34,185 |
| Disposals | (41,759) | (33,513) |
| **Closing Balance** | **46,799** | **2,636** |

| | 2020 | 2019 |
|---|---|---|
| Number of treasury shares held by OTP Group members (except the Bank) | 1,959 | 1,746 |

## NOTE 29: INTEREST INCOME AND EXPENSES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Interest income accounted for using the effective interest rate method from / on** | | |
| Loans at amortised cost | 143,652 | 137,183 |
| FVOCI securities | 29,095 | 40,332 |
| Securities at amortised cost | 48,654 | 47,119 |
| Placements with other banks | 12,248 | 8,034 |
| Financial liabilities | 1,544 | 1,720 |
| Amounts due from banks and balances with National Bank of Hungary | 4,391 | 1,196 |
| Repo receivables | 49 | 95 |
| **Subtotal** | **239,633** | **235,679** |
| | | |
| **Income similar to interest income** | | |
| Loans mandatorily measured at fair value through profit or loss | 15,094 | 5,106 |
| Swap and forward deals related to Placements with other banks | 56,341 | 65,090 |
| Swap and forward deals related to Loans at amortised cost | 14,011 | 24,114 |
| Swap and forward deals related to FVOCI securities | (3,789) | (6,099) |
| Investment properties | 6 | 6 |
| **Subtotal** | **81,663** | **88,217** |
| | | |
| **Interest incomes and similar to interest incomes total** | **321,296** | **323,896** |
| | | |
| **Interest expense due to / from / on** | | |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 67,747 | 78,644 |
| Deposits from customers | 19,598 | 28,146 |
| Leasing liabilities | 257 | 244 |
| Liabilities from issued securities | 414 | 224 |
| Subordinated bonds and loans | 8,327 | 5,323 |
| Investment properties (deprecation) | 49 | 48 |
| Financial assets | 1,622 | 2,278 |
| Repo liabilities | 1,616 | 4,477 |
| **Subtotal** | **99,630** | **119,384** |

## NOTE 30: RISK COST (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Loss allowance of loans at amortised cost** | | |
| Loss allowance | 215,544 | 143,175 |
| Release of loss allowance | (156,461) | (115,664) |
| | **59,083** | **27,511** |
| **Loss allowance of placements with other banks** | | |
| Loss allowance | 12,724 | 5,068 |
| Release of loss allowance | (10,497) | (3,523) |
| | **2,227** | **1,545** |
| **Loss allowance of FVOCI securities** | | |
| Loss allowance | 2,119 | 1,295 |
| Release of loss allowance | (2,116) | (1,471) |
| | **3** | **(176)** |
| **Loss allowance of securities at amortised cost** | | |
| Loss allowance | 4,822 | 338 |
| Release of loss allowance | (2,977) | (563) |
| | **1,845** | **(225)** |
| **Provision on loan commitments and financial guarantees** | | |
| Provision for the period | 57,246 | 29,517 |
| Release of provision | (54,044) | (23,723) |
| | **3,202** | **5,794** |
| **Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss** | **405** | **5,432** |
| **Risk cost total** | **66,765** | **39,881** |

## NOTE 31: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

**Income from fees and commissions:**

| | 2020 | 2019 |
|---|---|---|
| **Fees and commissions related to lending** | **11,141** | **5,999** |
| Deposit and account maintenance fees and commissions | 106,341 | 104,123 |
| Fees and commission related to the issued bank cards | 77,115 | 76,296 |
| Fees and commissions related to security trading | 25,414 | 27,332 |
| Fees and commissions paid by OTP Mortgage Bank Ltd. | 8,725 | 11,836 |
| Net insurance fee income | 7,155 | 6,013 |
| Other | 23,890 | 17,355 |
| **Fees and commissions from contracts with customers** | **248,640** | **242,955** |
| **Total Income from fees and commissions:** | **259,781** | **248,954** |

**Contract balances**

| | 2020 | 2019 |
|---|---|---|
| Receivables, which are included in other assets | 14,721 | 6,228 |
| Loss allowance | (570) | (88) |
| Liabilities which are included in other liabilities | - | - |

**NOTE 31: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]**

**Performance obligations and revenue recognition policies:**

| Fee type | Nature and timing of satisfaction of performance obligations, and the significant payment terms | Revenue recognition under IFRS 15 |
|---|---|---|
| Deposit and account maintenance fees and commissions | The Bank provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees (e.g. OTP Direct fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.).<br><br>Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category.<br><br>In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly.<br><br>In case of occasional services the Bank basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %.<br><br>The rates are reviewed by the Bank regularly. | Fees for ongoing account management services are charged on a monthly basis during the period when they are provided.<br><br>Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month. |
| Fees and commission related to the issued bank cards | The Bank provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions.<br><br>The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card.<br><br>In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount.<br><br>For all other cases where the Bank provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount.<br><br>The rates are reviewed by the Bank regularly. | Fees for ongoing services are charged on a monthly basis during the period when they are provided.<br><br>Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month. |

**NOTE 31: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]**

**Performance obligations and revenue recognition policies: [continued]**

| Fee type | Nature and timing of satisfaction of performance obligations, and the significant payment terms | Revenue recognition under IFRS 15 |
|---|---|---|
| Fees and commissions related to security account management services | The Bank provides its clients with security account management services. Fees will be charged for account management and transactions on accounts.<br><br>Account management fees are typically charged quarterly or annually. The amount is determined in%, based on the stocks of securities managed by the clients on the account in a given period.<br><br>Fees for transactions on the securities account are charged immediately after the transaction. They are determined in%, based on the transaction amount.<br><br>Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged. | Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly.<br><br>Transaction-based fees are charged when the transaction takes places. |
| Fees and commissions paid by OTP Mortgage Bank Ltd. | The Bank provides a number of services to its subsidiaries, in connection with fees are charged. These fees typically include services related to various warranties and guarantees, credit account management, agency activities, and marketing activities.<br><br>The credit account management fee granted to OTP Mortgage Bank is settled on a monthly basis. It has a fixed part that is based on the number of the managed credit accounts, and a variable one determined by the profit split method.<br><br>The fees for the guarantee services provided by the Bank are charged monthly. The fee is determined by% and based on the stock being guaranteed.<br><br>Fees for agent services are charged monthly. The rate is %, based on the products sold during the period. | Fees for ongoing services are charged on a monthly basis during the period when they are provided.<br><br>Transaction-based fees are charged when the transaction takes places. |
| Net insurance fee income | Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.<br><br>In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %. | Fees for ongoing services are charged on a monthly basis during the period when they are provided. |
| Other | Fees that are not significant in the Banks total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, adlak service fee, fee of a copy of document, etc.<br><br>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount. | Fees for ongoing services are charged on a monthly basis during the period when they are provided.<br>Fees for ad hoc services are charged when the transaction takes places. |

**NOTE 31: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]**

| | 2020 | 2019 |
|---|---|---|
| Other fees and commissions related to issued bank cards | 31,701 | 29,204 |
| Insurance fees | 758 | 720 |
| Fees and commissions related to lending | 3,432 | 1,839 |
| Fees and commissions related to security trading | 983 | 598 |
| Fees and commissions relating to deposits | 1,355 | 1,199 |
| Trust activities related to securities | 1,167 | 1,001 |
| Postal fees | 202 | 253 |
| Money market transaction fees and commissions | 91 | 41 |
| Other | 1,061 | 736 |
| **Total** | **40,750** | **35,591** |
| | **219,031** | **213,363** |

**NOTE 32: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Intermediary and other services | 2,677 | 1,921 |
| Income from lease of tangible assets | 749 | 590 |
| Gains on derecognition of deposits | 710 | 486 |
| Gains on sale of receivables | 377 | 163 |
| Gains on transactions related to property activities | 266 | 203 |
| Income from written off receivables | 206 | 257 |
| Gains on discount from advertising agency fees | 171 | 170 |
| Gains on sale of tangible assets | 150 | 271 |
| Non-repayable assets received | 26 | 264 |
| Other operating income from OTP Employee Stock Ownership Program (OTP ESOP) | 236 | 2,244 |
| Collateral valuation service fee received from OTP Building Society Ltd. | - | 396 |
| Other | 2,332 | 540 |
| **Total** | **7,900** | **7,505** |

| | 2020 | 2019 |
|---|---|---|
| Release of loss allowance/(Loss allowance) on investments in subsidiaries | (10,042) | 38,807 |
| Financial support for sport association and organization of public utility | (7,999) | (4,069) |
| Non-repayable assets contributed | (4,055) | (4,187) |
| Release of loss allowance on other assets | (3,521) | 186 |
| Losses on other assets | (697) | (1,095) |
| Fine imposed by Competition Authority | (25) | (143) |
| Release of provision for off-balance sheet commitments and contingent liabilities | 92 | 383 |
| Other | (1,817) | (3,367) |
| **Total** | **(28,064)** | **26,515** |

**NOTE 32: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]**

| | 2020 | 2019 |
|---|---|---|
| **Personnel expenses:** | | |
| Wages | 89,705 | 84,122 |
| Taxes related to personnel expenses | 16,308 | 17,861 |
| Other personnel expenses | 12,485 | 13,052 |
| **Subtotal** | **118,498** | **115,035** |
| | | |
| **Depreciation and amortization** | **38,948** | **29,925** |
| | | |
| **Other administrative expenses:** | | |
| Taxes, other than income tax[1] | 85,733 | 81,178 |
| Services | 44,090 | 43,369 |
| Administration expenses, including rental fees | 15,517 | 15,943 |
| Professional fees | 13,769 | 11,091 |
| Advertising | 7,405 | 8,617 |
| **Subtotal** | **166,514** | **160,198** |
| | | |
| **Total** | **323,960** | **305,158** |

**NOTE 33: INCOME TAX (in HUF mn)**

The Bank is presently liable for income tax at a rate of 9% of taxable income.

A breakdown of the income tax expense is:

| | 2020 | 2019 |
|---|---|---|
| Current tax expense | 1,849 | 4,625 |
| Deferred tax (benefit)/expense | (1,077) | 5,215 |
| **Total** | **772** | **9,840** |

A reconciliation of the deferred tax liability is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **(5,875)** | **1,241** |
| Deferred tax benefit /(expense)/ | 1,077 | (5,215) |
| Tax effect of fair value adjustment of FVOCI securities and ICES recognised in comprehensive income | 1,736 | (1,901) |
| **Closing balance** | **(3,062)** | **(5,875)** |

[1] Special tax of financial institutions was paid by OTP Bank in the amount of HUF 11.6 and 7.9 billion for the year ended 31 December 2020 and 2019, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2020 financial transaction duty was paid by the Bank in the amount of HUF 60 billion.

**NOTE 33: INCOME TAX (in HUF mn) [continued]**

A breakdown of the deferred tax liability is as follows:

| | 2020 | 2019 |
|---|---|---|
| Unused tax allowance | 1,321 | 283 |
| Amounts unenforceable by tax law | 247 | 210 |
| **Deferred tax asset** | **1,568** | **493** |
| Fair value adjustment of held for trading and securities at fair value through other comprehensive income | (4,199) | (5,935) |
| Difference in depreciation and amortization | (329) | (329) |
| Amounts unenforceable by tax law | (102) | (104) |
| **Deferred tax liabilities** | **(4,630)** | **(6,368)** |
| **Net deferred tax liabilities** | **(3,062)** | **(5,875)** |

A reconciliation of the income tax (income) / expense is as follows:

| | 2020 | 2019 |
|---|---|---|
| Profit before income tax | 93,246 | 203,194 |
| Income tax at statutory tax rate | 8,392 | 18,287 |
| Income tax adjustments due to permanent differencies are as follows: | | |
| Deferred use of tax allowance | - | 5,046 |
| Tax effect related to accounting policy change | 69 | - |
| Share-based payment | 305 | 319 |
| Use of tax losses | (167) | - |
| Deferred tax asset due to unused tax allowance | (1,038) | - |
| Amounts unenforceable by tax law | (39) | (58) |
| Use of tax allowance in the current year | (2,023) | (6,975) |
| Dividend income | (5,488) | (7,100) |
| Other | 761 | 321 |
| **Income tax** | **772** | **9,840** |
| *Effective tax rate* | *0.8%* | *4.8%* |

## NOTE 34: LEASE (in HUF mn)

**The Bank as a lessee:**

At initial application of IFRS 16 the Bank as lessee chose the modified retrospective approach (see Note 2.19.), so there are no comparative figures for 31 December 2018.

| | 1 january 2019 |
|---|---|
| **Amounts recognised at initial application** | |
| Lease liability | 16,150 |
| Prepaid or accrued lease payments as at 31 December 2018 | 145 |
| Right-of-use asset | 16,295 |
| Cumulative impact recognized as an adjustment to the equity at the date of initial application | - |

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognise the lease liabilities: ~1.61 %.

| **Amounts recognised in profit and loss** | **2020** | **2019** |
|---|---|---|
| Interest expense on lease liabilities | 257 | 244 |
| Expense relating to short-term leases | 2,128 | 4,212 |
| Expense relating to leases of low value assets | - | 12 |
| Expense relating to variable lease payments not included in the measurement of lease liabilities | 1,084 | 874 |

Leasing liabilities by maturities:

| | **2020** | **2019** |
|---|---|---|
| Within one year | 4,423 | 3,826 |
| Over one year | 9,683 | 9,834 |
| **Total** | **14,106** | **13,660** |

An analysis of movement in the carrying amount of right-of-use assets by category is as follows:

| | **Right-of-use of real estate** | **Right-of-use of machinery and equipment** | **Total** |
|---|---|---|---|
| **Gross carrying amount** | | | |
| **Balance as at 1 January** | 16,259 | 37 | 16,296 |
| Additions due to new contracts | 786 | - | 786 |
| Derecognition due to matured contracts | (107) | - | (107) |
| Change due to revaluation and modification | 852 | - | 852 |
| **Balance as at 31 December 2019** | **17,790** | **37** | **17,827** |
| Additions due to new contracts | 3,706 | - | 3,706 |
| Derecognition due to matured contracts | (18) | - | (18) |
| Change due to revaluation and modification | 928 | - | 928 |
| **Balance as at 31 December 2020** | **22,406** | **37** | **22,443** |
| **Depreciation** | | | |
| **Balance as at 1 January** | - | - | - |
| Depreciation charge | 4,218 | 6 | 4,224 |
| Derecognition due to matured contracts | (4) | - | (4) |
| **Balance as at 31 December 2019** | **4,214** | **6** | **4,220** |
| Depreciation charge | 4,744 | 6 | 4,750 |
| Derecognition due to matured contracts | (6) | - | (6) |
| **Balance as at 31 December 2020** | **8,952** | **12** | **8,964** |
| **Net carrying amount** | | | |
| **Balance as at 31 December 2019** | **13,576** | **31** | **13,607** |
| **Balance as at 31 December 2020** | **13,454** | **25** | **13,479** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

### *35.1. Credit risk*

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

#### 35.1.1. Analysis by loan types

**Defining the expected credit loss on individual and collective basis**

**On individual basis:**

Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (amortised cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.
At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

**On collective basis:**

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposure which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, significant on a stand-alone basis,
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.1. Credit risk [continued]*

#### 35.1.1. Analysis by loan types [continued]

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

The Bank's Headquarters Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD -probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements is responsible for parameter estimations and updates, macroeconomic scenarios are calculated by OTP Bank Headquarters for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarters, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

The impairment parameters should be backtested at least annually.

The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.1. Credit risk [continued]*

### 35.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2020:

| Assets measured at amortised cost and FVOCI as at 31 December 2020 | Carrying amount/ Exposure | Gross carrying amount / Notional amount | | | | | Loss allowance | | | | | Write-off |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | Purchased or originated credit impaired | Total | Stage 1 | Stage 2 | Stage 3 | Purchased or originated credit impaired | Total | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 579,120 | 579,120 | - | - | - | 579,120 | - | - | - | - | - | - |
| Placements with other banks, net of allowance for placement losses | 1,535,884 | 1,540,240 | 2 | 1,461 | - | 1,541,703 | 4,356 | 2 | 1,461 | - | 5,819 | - |
| Repo receivables | 183,364 | 183,656 | - | - | - | 183,656 | 292 | - | - | - | 292 | - |
| *Retail consumer loans* | *531,115* | *456,034* | *98,027* | *10,632* | *5* | *564,698* | *5,945* | *20,866* | *6,770* | *2* | *33,583* | - |
| *Mortgage loans* | *95,762* | *29,857* | *58,609* | *6,602* | *2,909* | *97,977* | *20* | *688* | *1,313* | *194* | *2,215* | - |
| *Municipal loans* | *86,061* | *72,406* | *15,564* | *43* | - | *88,013* | *227* | *1,709* | *16* | - | *1,952* | - |
| *Corporate loans* | *2,704,822* | *2,361,979* | *380,458* | *37,177* | *11,128* | *2,790,742* | *16,314* | *43,034* | *25,127* | *1,445* | *85,920* | *25,720* |
| Loans at amortised cost | 3,417,760 | 2,920,276 | 552,658 | 54,454 | 14,042 | 3,541,430 | 22,506 | 66,297 | 33,226 | 1,641 | 123,670 | 25,720 |
| FVOCI securities[1] | 911,950 | 911,950 | - | - | - | 911,950 | 1,714 | - | - | - | 1,714 | - |
| Securities at amortised cost | 2,007,692 | 2,010,980 | - | - | - | 2,010,980 | 3,288 | - | - | - | 3,288 | - |
| Other financial assets | 127,179 | 93,491 | 40,452 | 1,133 | 31 | 135,107 | 2,407 | 4,504 | 996 | 21 | 7,928 | - |
| **Total as at 31 December 2020** | **8,762,949** | **8,239,713** | **593,112** | **57,048** | **14,073** | **8,903,946** | **34,563** | **70,803** | **35,683** | **1,662** | **142,711** | **25,720** |
| Loan commitments | 1,429,732 | 1,369,379 | 69,998 | 1,683 | - | 1,441,060 | 5,442 | 5,047 | 839 | - | 11,328 | - |
| Financial guarantees | 1,412,663 | 1,409,766 | 8,609 | 161 | - | 1,418,536 | 5,087 | 738 | 48 | - | 5,873 | - |
| Factoring loan commitments | 304,993 | 299,908 | 3,551 | 1,810 | - | 305,269 | 175 | 35 | 66 | - | 276 | - |
| Bill of credit | 5,026 | 5,039 | - | - | - | 5,039 | 13 | - | - | - | 13 | - |
| ***Loan commitments and financial guarantees total*** | ***3,152,414*** | ***3,084,092*** | ***82,158*** | ***3,654*** | - | ***3,169,904*** | ***10,717*** | ***5,820*** | ***953*** | - | ***17,490*** | - |

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 9). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.1. Credit risk [continued]*

### 35.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2019:

| Assets measured at amortised cost and FVOCI as at 31 December 2019 | Carrying amount/ Exposure | Gross carrying amount / Notional amount | | | | | Loss allowance | | | | | Write-off |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | Purchased or originated credit impaired | Total | Stage 1 | Stage 2 | Stage 3 | Purchased or originated credit impaired | Total | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 289,686 | 289,686 | - | - | - | 289,686 | - | - | - | - | - | - |
| Placements with other banks, net of allowance for placement losses | 1,560,142 | 1,563,732 | 2 | - | - | 1,563,734 | 3,590 | 2 | - | - | 3,592 | - |
| Repo receivables | 45,539 | 45,545 | - | - | - | 45,545 | 6 | - | - | - | 6 | - |
| *Retail consumer loans* | *500,153* | *492,435* | *16,157* | *5,583* | *6* | *514,181* | *5,135* | *5,542* | *3,348* | *3* | *14,028* | - |
| *Mortgage loans* | *111,064* | *91,058* | *12,619* | *6,031* | *3,038* | *112,746* | *19* | *234* | *1,314* | *115* | *1,682* | - |
| *Municipal loans* | *86,907* | *83,136* | *122* | *5,332* | - | *88,590* | *435* | *8* | *1,240* | - | *1,683* | - |
| *Corporate loans* | *2,378,407* | *2,294,436* | *92,411* | *36,020* | *10,213* | *2,433,080* | *21,188* | *12,894* | *19,939* | *652* | *54,673* | *34,770* |
| Loans at amortised cost | 3,076,531 | 2,961,065 | 121,309 | 52,966 | 13,257 | 3,148,597 | 26,777 | 18,678 | 25,841 | 770 | 72,066 | 34,770 |
| FVOCI securities[1] | 1,485,977 | 1,485,977 | - | - | - | 1,485,977 | 1,702 | - | - | - | 1,702 | - |
| Securities at amortised cost | 1,447,224 | 1,448,667 | - | - | - | 1,448,667 | 1,443 | - | - | - | 1,443 | - |
| Other financial assets | 89,482 | 56,577 | 37,499 | 1,015 | 37 | 95,128 | 583 | 4,291 | 754 | 18 | 5,646 | - |
| **Total as at 31 December 2019** | **7,994,581** | **7,851,249** | **158,810** | **53,981** | **13,294** | **8,077,334** | **34,101** | **22,971** | **26,595** | **788** | **84,455** | **34,770** |
| Loan commitments | 1,487,112 | 1,485,861 | 8,136 | 511 | - | 1,494,508 | 6,577 | 620 | 199 | - | 7,396 | - |
| Financial guarantees | 1,079,896 | 1,080,423 | 4,276 | 1,813 | - | 1,086,512 | 4,784 | 456 | 1,376 | - | 6,616 | - |
| Factoring loan commitments | 227,871 | 225,703 | 589 | 1,853 | - | 228,145 | 201 | 1 | 72 | - | 274 | - |
| Bill of credit | 747 | 749 | - | - | - | 749 | 2 | - | - | - | 2 | - |
| ***Loan commitments and financial guarantees total*** | ***2,795,626*** | ***2,792,736*** | ***13,001*** | ***4,177*** | - | ***2,809,914*** | ***11,564*** | ***1,077*** | ***1,647*** | - | ***14,288*** | - |

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 9). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.1. Analysis by loan types [continued]**

**Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages**

**Loans at amortised cost**

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Loss allowance as at 1 January 2019** | **16,498** | **13,860** | **31,608** | **967** | **62,933** |
| Transfer to Stage 1 | 369 | (4,053) | (181) | - | (3,865) |
| Transfer to Stage 2 | (979) | 7,012 | (431) | - | 5,602 |
| Transfer to Stage 3 | (91) | (1,071) | 3,795 | - | 2,633 |
| Net remeasurement of loss allowance | 1,295 | (855) | (6,235) | (183) | (5,978) |
| New financial assets originated or purchased | 14,474 | 4,836 | 3,014 | 6 | 22,330 |
| Financial assets derecognised (other than write-offs) | (4,826) | (2,501) | (3,086) | (12) | (10,425) |
| Unwind of discount | - | - | 874 | 320 | 1,194 |
| Write-offs | (61) | (32) | (3,558) | (328) | (3,979) |
| Other movements | 98 | 1,482 | 41 | - | 1,621 |
| **Loss allowance as at 31 December 2019** | **26,777** | **18,678** | **25,841** | **770** | **72,066** |
| Transfer to Stage 1 | 51 | (612) | (21) | - | (582) |
| Transfer to Stage 2 | (4,374) | 45,995 | (1,308) | - | 40,313 |
| Transfer to Stage 3 | (188) | (1,683) | 6,670 | - | 4,799 |
| Net remeasurement of loss allowance | (2,154) | (149) | 4,397 | 839 | 2,933 |
| New financial assets originated or purchased | 11,393 | 7,498 | 2,918 | 45 | 21,854 |
| Financial assets derecognised (other than write-offs) | (8,975) | (3,354) | (3,717) | (11) | (16,057) |
| Unwind of discount | - | - | 1,613 | 217 | 1,830 |
| Write-offs | (24) | (76) | (3,167) | (219) | (3,486) |
| **Loss allowance as at 31 December 2020** | **22,506** | **66,297** | **33,226** | **1,641** | **123,670** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.1. Analysis by loan types [continued]**

**Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages [continued]**

**Loan commitments and financial guarantees**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Provision as at 1 January 2019** | **6,331** | **1,928** | **235** | **8,494** |
| Transfer to Stage 1 | 84 | (1,029) | (15) | (960) |
| Transfer to Stage 2 | (21) | 413 | (15) | 377 |
| Transfer to Stage 3 | (9) | (21) | 1,514 | 1,484 |
| Net remeasurement of loss allowance | 1,245 | 291 | (7) | 1,529 |
| New financial assets originated or purchased | 5,204 | 98 | 31 | 5,333 |
| Decrease | (1,270) | (603) | (96) | (1,969) |
| **Provision as at 31 December 2019** | **11,564** | **1,077** | **1,647** | **14,288** |
| Transfer to Stage 1 | 10 | (125) | (17) | (132) |
| Transfer to Stage 2 | (501) | 4,279 | (21) | 3,757 |
| Transfer to Stage 3 | (9) | (28) | 731 | 694 |
| Net remeasurement of loss allowance | (807) | (106) | (1,336) | (2,249) |
| New financial assets originated or purchased | 2,843 | 796 | 67 | 3,706 |
| Decrease | (2,383) | (73) | (118) | (2,574) |
| **Provision as at 31 December 2020** | **10,717** | **5,820** | **953** | **17,490** |

**Placements with other banks, net of allowance for placement losses**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Loss allowance as at 1 January 2019** | **2,035** | **12** | **-** | **2,047** |
| Net remeasurement of loss allowance | 290 | - | - | 290 |
| New financial assets originated or purchased | 2,202 | 2 | - | 2,204 |
| Financial assets derecognised (other than write-offs) | (937) | (12) | - | **(949)** |
| **Loss allowance as at 31 December 2019** | **3,590** | **2** | **-** | **3,592** |
| Net remeasurement of loss allowance | 515 | - | - | 515 |
| New financial assets originated or purchased | 2,321 | - | 1,461 | 3,782 |
| Financial assets derecognised (other than write-offs) | (2,070) | - | - | (2,070) |
| **Loss allowance as at 31 December 2020** | **4,356** | **2** | **1,461** | **5,819** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.1. Analysis by loan types [continued]**

**Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages [continued]**

**Repo Receivables**

| | Stage 1 | Total |
|---|---|---|
| **Loss allowance as at 1 January 2019** | **12** | **12** |
| New financial assets originated or purchased | 42 | 42 |
| Financial assets derecognised (other than write-offs) | (48) | (48) |
| **Loss allowance as at 31 December 2019** | **6** | **6** |
| New financial assets originated or purchased | 362 | 362 |
| Financial assets derecognised (other than write-offs) | (76) | (76) |
| **Loss allowance as at 31 December 2020** | **292** | **292** |

**Securities at amortised cost**

| | Stage 1 | Total |
|---|---|---|
| **Loss allowance as at 1 January 2019** | **1,668** | **1,668** |
| Net remeasurement of loss allowance | (149) | (149) |
| New financial assets originated or purchased | 58 | 58 |
| Financial assets derecognised (other than write-offs) | (134) | (134) |
| **Loss allowance as at 31 December 2019** | **1,443** | **1,443** |
| Net remeasurement of loss allowance | 1,334 | 1,334 |
| New financial assets originated or purchased | 595 | 595 |
| Financial assets derecognised (other than write-offs) | (84) | (84) |
| **Loss allowance as at 31 December 2020** | **3,288** | **3,288** |

**FVOCI Securities**

| | Stage 1 | Total |
|---|---|---|
| **Loss allowance as at 1 January 2019** | **1,859** | **1,859** |
| Net remeasurement of loss allowance | (148) | (148) |
| New financial assets originated or purchased | 550 | 550 |
| Financial assets derecognised (other than write-offs) | (559) | (559) |
| **Loss allowance as at 31 December 2019** | **1,702** | **1,702** |
| Net remeasurement of loss allowance | 286 | 286 |
| New financial assets originated or purchased | 509 | 509 |
| Financial assets derecognised (other than write-offs) | (783) | (783) |
| **Loss allowance as at 31 December 2020** | **1,714** | **1,714** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.1. Analysis by loan types [continued]**

**Loan portfolio by countries**

An analysis of carrying amount of the non-qualified and qualified gross loan portfolio by country is as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| **Country** | **Gross loan and placements with other banks portfolio** | **Loss allowance** | **Gross loan and placements with other banks portfolio** | **Loss allowance** |
| Hungary | 3,797,729 | (99,295) | 3,189,583 | (59,242) |
| Malta | 759,425 | (3,985) | 746,431 | (4,225) |
| Croatia | 126,886 | (917) | 68,887 | (35) |
| Serbia | 126,431 | (5,151) | 255,525 | (4,163) |
| Bulgaria | 102,067 | (9,158) | 80,708 | (2,798) |
| Slovakia | 73,808 | (207) | 114,758 | (293) |
| Montenegro | 66,319 | (686) | 37,021 | (56) |
| Other | 214,124 | (10,382) | 264,963 | (4,852) |
| **Loans, placements with other banks and repo receivables at amortised cost total** | **5,266,789** | **(129,781)** | **4,757,876** | **(75,664)** |
| Hungary | 480,933 | - | 238,538 | - |
| Other | 4 | - | - | - |
| **Loans at fair value total** | **480,937** | **-** | **238,538** | **-** |
| **Loans, placements with other banks and repo receivables total** | **5,747,726** | **(129,781)** | **4,996,414** | **(75,664)** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.2. Collaterals**

The collateral value held by the Bank by collateral types is as follows (**total collateral value**). The collaterals cover loans as well as off-balance sheet exposures.

| Types of collateral | | 2020 | 2019 |
|---|---|---|---|
| Mortgages | | 1,450,951 | 1,258,217 |
| Guarantees and warranties | | 1,074,420 | 609,357 |
| Deposit | | 191,268 | 185,537 |
| *from this:* | *Cash* | *62,469* | *46,293* |
| | *Securities* | *128,799* | *135,202* |
| Other | | 563 | 794 |
| **Total** | | **2,717,202** | **2,053,905** |

The collateral value held by the Bank by collateral types is as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

| Types of collateral | | 2020 | 2019 |
|---|---|---|---|
| Mortgage | | 687,688 | 478,265 |
| Guarantees and warranties | | 836,874 | 492,747 |
| Deposit | | 94,397 | 118,387 |
| *from this:* | *Cash* | *8,204* | *13,318* |
| | *Securities* | *86,193* | *101,578* |
| Other | | 423 | 632 |
| **Total** | | **1,619,382** | **1,090,031** |

The coverage level of loan portfolio to the extent of the exposures increased from 23.13% to 31.86% as at 31 December 2020, while the coverage to the total collateral value decreased from 43.59% to 53.46%.

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio is as follows:

| For the year ended 31 December 2020 | Gross carrying amount | Loss allowance | Carrying amount | Collateral value |
|---|---|---|---|---|
| Retail consumer loans | 10,632 | (6,770) | 3,862 | 128 |
| Mortgage loans | 6,602 | (1,313) | 5,289 | 32,302 |
| Municipal loans | 43 | (16) | 27 | 104 |
| Corporate loans | 37,177 | (25,127) | 12,050 | 46,210 |
| **Total** | **54,454** | **(33,226)** | **21,228** | **78,744** |

| For the year ended 31 December 2019 | Gross carrying amount | Loss allowance | Carrying amount | Collateral value |
|---|---|---|---|---|
| Retail consumer loans | 5,583 | (3,348) | 2,235 | 291 |
| Mortgage loans | 6,031 | (1,314) | 4,717 | 26,239 |
| Municipal loans | 5,332 | (1,240) | 4,092 | 9,526 |
| Corporate loans | 36,020 | (19,939) | 16,081 | 37,435 |
| **Total** | **52,966** | **(25,841)** | **27,125** | **73,491** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**35.1.3. Restructured loans**

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **Gross portfolio** | **Loss allowance** | **Gross portfolio** | **Loss allowance** |
| Consumer loans | 5,399 | (2,575) | 5,188 | (2,107) |
| Mortgage loans | 2,156 | (68) | 7,934 | (238) |
| Corporate loans[1] | 27,963 | (8,283) | 7,087 | (2,062) |
| SME loans | 6,295 | (1,278) | 7,111 | (1,332) |
| Municipal loans | 41 | (16) | - | - |
| **Total** | **41,854** | **(12,220)** | **27,319** | **(5,739)** |

**Restructured portfolio definition**

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

[1] incl.: project and syndicated loans

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**Financial instruments by rating categories[1]**

**Held-for-trading securities as at 31 December 2020**

| | A2 | A3 | B1 | Ba2 | Ba3 | Baa1 | Baa2 | Baa3 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Other non-interest bearing securities | - | - | - | - | - | - | - | - | 1,964 | 1,964 |
| Government bonds | - | - | - | - | 465 | - | - | 5,566 | - | 6,031 |
| Mortgage bonds | - | - | - | - | - | - | - | - | - | - |
| Hungarian government discounted Treasury Bills | - | - | - | - | - | - | - | 1,233 | - | 1,233 |
| Hungarian government interest bearing Treasury Bills | - | - | - | - | - | - | - | - | - | - |
| Shares | 36 | 33 | 5 | 7 | - | 45 | 7 | 36 | 257 | 426 |
| Other bonds | - | 495 | - | - | - | - | - | 998 | 582 | 2,075 |
| **Total** | **36** | **528** | **5** | **7** | **465** | **45** | **7** | **7,833** | **2,803** | **11,729** |

**Securities mandatorily measured at fair value through profit or loss as at 31 December 2020**

| | Not rated | Total |
|---|---|---|
| Government bonds | 23,818 | 23,818 |
| Mortgage bonds | 5,342 | 5,342 |
| Shares | 2,776 | 2,776 |
| **Total** | **31,936** | **31,936** |

[1] Moody's ratings

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.1. Credit risk [continued]***

**Financial instruments by rating categories[1]**

**FVOCI securities as at 31 December 2020**

| | A2 | A3 | Ba1 | Ba3 | Baa2 | Baa3 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|
| Mortgage bonds | 63,577 | - | - | - | 250,673 | - | 18,417 | 332,667 |
| Government bonds | 226 | 7,391 | 4,624 | 15,055 | - | 461,163 | - | 488,459 |
| Hungarian Treasury Bills | - | - | - | - | - | 9,957 | - | 9,957 |
| Non-treading equity instruments | - | - | - | - | - | - | 15,731 | 15,731 |
| Other bonds | - | 4,815 | 3,958 | - | 1,620 | 37,961 | 16,782 | 65,136 |
| **Total** | **63,803** | **12,206** | **8,582** | **15,055** | **252,293** | **509,081** | **50,930** | **911,950** |

**Securities at amortised cost as at 31 December 2020**

| | Ba2 | Baa3 | Not rated | Total |
|---|---|---|---|---|
| Government bonds | 2,816 | 1,941,855 | - | 1,944,671 |
| Mortgage bonds | - | 14,579 | 48,442 | 63,021 |
| **Total** | **2,816** | **1,956,434** | **48,442** | **2,007,692** |

[1] Moody's ratings

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.1. Credit risk [continued]*

An analysis of securities (held for trading, mandatorily FVTPL, FVOCI and amortised cost) in a country breakdown is as follows:

| Country | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Hungary | 1,986,362 | (3,194) | 1,448,667 | (1,443) |
| Russia | 2,757 | (3) | - | - |
| United States of America | 1,069 | (4) | - | - |
| Luxembourg | 20,792 | (87) | - | - |
| **Securities at amortised cost total** | **2,010,980** | **(3,288)** | **1,448,667** | **(1,443)** |
| Hungary | 761,472 | - | 1,341,792 | - |
| Luxembourg | 85,006 | - | - | - |
| Slovakia | - | - | 15,025 | - |
| Russia | 29,697 | - | 40,120 | - |
| Slovenia | 7,391 | - | 6,984 | - |
| Romania | - | - | 13,126 | - |
| Serbia | - | - | 6,902 | - |
| Sweden | - | - | 1,503 | - |
| Croatia | - | - | 1,657 | - |
| Lithuania | - | - | 6,536 | - |
| Poland | - | - | 15,636 | - |
| Bulgaria | - | - | 10,817 | - |
| United States of America | 12,653 | - | - | - |
| Germany | - | - | 3,559 | - |
| **FVOCI securities total** | **896,219** | **-** | **1,463,657** | **-** |
| Austria | 12,079 | - | 12,412 | - |
| Luxembourg | - | - | 4,486 | - |
| Hungary | 530 | - | 530 | - |
| Portugal | - | - | 157 | - |
| United States of America | 3,122 | - | 4,735 | - |
| **Non-trading equity instruments designated to measure at fair value through other comprehensive income** | **15,731** | **-** | **22,320** | **-** |
| Hungary | 8,613 | - | 28,027 | - |
| Luxembourg | 771 | - | 10,482 | - |
| Russia | 808 | - | 7,279 | - |
| Serbia | 465 | - | - | - |
| Germany | 410 | - | 306 | - |
| Ireland | 32 | - | - | - |
| Romania | (1) | - | 8 | - |
| Netherlands | - | - | 153 | - |
| United States of America | 625 | - | - | - |
| Australia | 1 | - | - | - |
| United Kingdom | 5 | - | - | - |
| **Held for trading securities total** | **11,729** | **-** | **46,255** | **-** |
| Hungary | 18,470 | - | 17,100 | - |
| United States of America | 2,776 | - | - | - |
| Luxembourg | 10,428 | - | 5,180 | - |
| Portugal | 262 | - | - | - |
| **Securities mandatorily measured at fair value through profit or loss** | **31,936** | **-** | **22,280** | **-** |
| **Securities total** | **2,966,595** | **(3,288)** | **3,003,179** | **(1,443)** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.2. Maturity analysis of assets and liabilities and liquidity risk*

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The essential aspect of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

In line with the Bank's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Bank must keep high quality liquidity reserves by means it can fulfil all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided into two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the OTP Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. There were no material changes in the liquidity risk management process for the year ended 31 December 2020.

The following tables provide an analysis of assets and liabilities about the non-discounted cash flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.2. Maturity analysis of assets and liabilities and liquidity risk [continued]*

| As at 31 December 2020 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 579,120 | - | - | - | - | 579,120 |
| Placements with other banks, net of allowance for placement losses | 578,907 | 656,143 | 273,834 | 33,027 | - | 1,541,911 |
| Repo receivables | 183,656 | - | - | - | - | 183,656 |
| Financial assets at fair value through profit or loss | 1,401 | 1,151 | 3,576 | 9,042 | 22,121 | 37,291 |
| Securities at fair value through other comprehensive income | 14,453 | 111,117 | 402,797 | 305,507 | 15,731 | 849,605 |
| Loans at amortised cost | 1,134,542 | 728,410 | 1,132,083 | 645,980 | - | 3,641,015 |
| Loans mandatorily measured at fair value through profit or loss | 14,850 | 11,674 | 85,000 | 383,775 | - | 495,299 |
| Securities at amortised cost | 19,735 | 37,950 | 1,354,479 | 559,171 | - | 1,971,335 |
| Investment properties | - | - | - | - | 1,936 | 1,936 |
| Investments in subsidiaries, associates and other investments | - | - | - | - | 1,548,972 | 1,548,972 |
| Other financial assets | 133,832 | 1,277 | - | - | - | 135,109 |
| **TOTAL ASSETS** | **2,660,496** | **1,547,722** | **3,251,769** | **1,936,502** | **1,588,760** | **10,985,249** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 152,633 | 62,871 | 492,291 | 73,574 | - | 781,369 |
| Deposits from customers | 7,716,000 | 131,890 | 30,628 | 14,115 | - | 7,892,633 |
| Repo liabilities | - | - | 109,612 | - | - | 109,612 |
| Liabilities from issued securities | 636 | 11,835 | 15,256 | 487 | - | 28,214 |
| Subordinated bonds and loans | 2,972 | - | - | 302,182 | - | 305,154 |
| Financial liabilities at fair value through profit or loss | 3,159 | 1,421 | 6,115 | 15,207 | - | 25,902 |
| Leasing liabilities | 1,073 | 3,350 | 7,213 | 2,470 | - | 14,106 |
| Other financial liabilities | 161,652 | 4,877 | 1,417 | - | - | 167,946 |
| **TOTAL LIABILITIES** | **8,038,125** | **216,244** | **662,532** | **408,035** | **-** | **9,324,936** |
| **NET POSITION[1]** | **(5,377,629)** | **1,331,478** | **2,589,237** | **1,528,467** | **1,588,760** | **1,660,313** |
| Receivables from derivative financial instruments classified as held for trading | 160,910 | 3,156,604 | 552,687 | 270,557 | - | 4,140,758 |
| Liabilities from derivative financial instruments classified as held for trading | (88,685) | (3,774,109) | (490,468) | (226,529) | - | (4,579,791) |
| ***Net position of derivative financial instruments classified as held for trading*** | ***72,225*** | ***(617,505)*** | ***62,219*** | ***44,028*** | ***-*** | ***(439,033)*** |
| Receivables from derivative financial instruments designated as hedge accounting | 183 | 7,286 | 168,912 | 173,109 | - | 349,490 |
| Liabilities from derivative financial instruments designated as hedge accounting | (40,485) | (114,512) | (472,245) | (88,720) | - | (715,962) |
| ***Net position of derivative financial instruments designated as hedging accounting*** | **(40,302)** | **(107,226)** | **(303,333)** | **84,389** | **-** | **(366,472)** |
| **Net position of derivative financial instruments total** | **31,923** | **(724,731)** | **(241,114)** | **128,417** | **-** | **(805,505)** |
| Commitments to extend credit | 1,441,060 | - | - | - | - | *1,441,060* |
| Confirmed letters of credit | 5,039 | - | - | - | - | *5,039* |
| Factoring loan commitment | 305,269 | - | - | - | - | *305,269* |
| Bank guarantees | 115,485 | 136,569 | 305,714 | 861,775 | - | *1,419,543* |
| **Off-balance sheet commitments** | **1,866,853** | **136,569** | **305,714** | **861,775** | **-** | **3,170,911** |

[1] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Bank could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on Management's discretion the Bank has appropriate liquidity reserves as maintenance and management of liquidity risk.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.2. Maturity analysis of assets and liabilities and liquidity risk [continued]*

| As at 31 December 2019 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 289,686 | - | - | - | - | 289,686 |
| Placements with other banks, net of allowance for placement losses | 314,057 | 892,859 | 251,037 | 105,782 | - | 1,563,735 |
| Repo receivables | 45,545 | - | - | - | - | 45,545 |
| Financial assets at fair value through profit or loss | 6,347 | 5,855 | 17,810 | 12,678 | 15,618 | 58,308 |
| Securities at fair value through other comprehensive income | 200,724 | 408,955 | 499,697 | 268,379 | 22,360 | 1,400,115 |
| Loans at amortised cost | 919,347 | 702,458 | 905,776 | 624,710 | - | 3,152,291 |
| Loans mandatorily measured at fair value through profit or loss | 2,529 | 7,368 | 50,113 | 183,813 | - | 243,823 |
| Securities at amortised cost | 16,828 | 84,903 | 895,227 | 399,029 | - | 1,395,987 |
| Investment properties | - | - | - | - | 2,381 | 2,381 |
| Investments in subsidiaries, associates and other investments | - | - | - | - | 1,542,538 | 1,542,538 |
| Other financial assets | 93,158 | 475 | 30 | 6 | 1,460 | 95,129 |
| **TOTAL ASSETS** | **1,888,221** | **2,102,873** | **2,619,690** | **1,594,397** | **1,584,357** | **9,789,538** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 477,237 | 17,302 | 202,653 | 40,862 | - | 738,054 |
| Deposits from customers | 6,407,569 | 121,985 | 28,404 | 15,592 | - | 6,573,550 |
| Repo liabilities | 20,419 | - | 442,202 | - | - | 462,621 |
| Liabilities from issued securities | 4,193 | 17,912 | 19,817 | 104 | - | 42,026 |
| Subordinated bonds and loans | 2,695 | - | - | 277,591 | - | 280,286 |
| Financial liabilities at fair value through profit or loss | 677 | 1,928 | 9,605 | 16,651 | - | 28,861 |
| Leasing liabilities | 593 | 3,234 | 8,086 | 1,747 | - | 13,660 |
| Other financial liabilities | 176,696 | 105 | - | - | - | 176,801 |
| **TOTAL LIABILITIES** | **7,090,079** | **162,466** | **710,767** | **352,547** | **-** | **8,315,859** |
| **NET POSITION[1]** | **(5,201,858)** | **1,940,407** | **1,908,923** | **1,241,850** | **1,584,357** | **1,473,679** |
| Receivables from derivative financial instruments classified as held for trading | 1,784,183 | 1,498,417 | 957,269 | 502,071 | - | 4,741,940 |
| Liabilities from derivative financial instruments classified as held for trading | (2,271,319) | (1,202,620) | (903,040) | (396,707) | - | (4,773,686) |
| ***Net position of derivative financial instruments classified as held for trading*** | ***(487,136)*** | ***295,797*** | ***54,229*** | ***105,364*** | *-* | ***(31,746)*** |
| Receivables from derivative financial instruments designated as hedge accounting | 238 | 93,792 | 151,536 | 164,409 | - | 409,975 |
| Liabilities from derivative financial instruments designated as hedge accounting | (6,611) | (249,914) | (233,863) | (74,862) | - | (565,250) |
| **Net position of derivative financial instruments designated as hedging accounting** | **(6,373)** | **(156,122)** | **(82,327)** | **89,547** | **-** | **(155,275)** |
| **Net position of derivative financial instruments total** | **(493,509)** | **139,675** | **(28,098)** | **194,911** | **-** | **(187,021)** |
| Commitments to extend credit | 1,494,508 | - | - | - | - | *1,494,508* |
| Confirmed letters of credit | 749 | - | - | - | - | *749* |
| Factoring loan commitment | 228,145 | - | - | - | - | *228,145* |
| Bank guarantees | 49,506 | 104,474 | 170,493 | 762,827 | - | *1,087,300* |
| **Off-balance sheet commitments** | **1,772,908** | **104,474** | **170,493** | **762,827** | **-** | **2,810,702** |

[1] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Bank could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on Management's discretion the Bank has appropriate liquidity reserves as maintenance and management of liquidity risk.

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### *35.3. Net foreign currency position and foreign currency risk*

**As at 31 December 2020**

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets[1] | 174,993 | 1,929,758 | 17,509 | 251,877 | 2,374,137 |
| Liabilities | (291,985) | (1,623,605) | (35,701) | (105,346) | (2,056,637) |
| Derivative financial instruments | 116,987 | (350,237) | 18,614 | (146,208) | (360,844) |
| **Net position** | **(5)** | **(44,084)** | **422** | **323** | **(43,344)** |

**As at 31 December 2019**

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets[1] | 257,687 | 1,762,176 | 28,949 | 247,647 | 2,296,459 |
| Liabilities | (297,771) | (1,418,426) | (35,679) | (164,325) | (1,916,201) |
| Derivative financial instruments | 45,528 | (427,768) | 6,977 | (85,447) | (460,710) |
| **Net position** | **5,444** | **(84,018)** | **247** | **(2,125)** | **(80,452)** |

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and its own limit system established in respect of limits on open positions. The measurement of the Bank's open its currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

In the table Derivative financial instruments are stated at fair value.

### *35.4. Interest rate risk management*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| As at 31 December 2020 | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | |
| **Cash, amounts due from banks and balances with the National Bank of Hungary** | **144,030** | **239,960** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **168,435** | **26,695** | **312,465** | **266,655** | **579,120** |
| fixed interest | 144,030 | 239,960 | - | - | - | - | - | - | - | - | - | - | 144,030 | 239,960 | **383,990** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 168,435 | 26,695 | 168,435 | 26,695 | **195,130** |
| **Placements with other banks** | **783,024** | **80,732** | **177,155** | **189,231** | **43,239** | **64,447** | **23,378** | **3,629** | **122,035** | **27,080** | **19,194** | **2,740** | **1,168,025** | **367,859** | **1,535,884** |
| fixed interest | 220,175 | 17,719 | 15,106 | 179,174 | 13,934 | 64,447 | 23,378 | 3,629 | 122,035 | 27,080 | - | - | 394,628 | 292,049 | **686,677** |
| variable interest | 562,849 | 63,013 | 162,049 | 10,057 | 29,305 | - | - | - | - | - | - | - | 754,203 | 73,070 | **827,273** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 19,194 | 2,740 | 19,194 | 2,740 | **21,934** |
| **Repo receivables** | **183,364** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **183,364** | **-** | **183,364** |
| fixed interest | 183,364 | - | - | - | - | - | - | - | - | - | - | - | 183,364 | - | **183,364** |
| **Securities held for trading** | **1,260** | **526** | **287** | **567** | **608** | **465** | **1,250** | **298** | **2,983** | **1,095** | **1,926** | **464** | **8,314** | **3,415** | **11,729** |
| fixed interest | 354 | - | 287 | 567 | 608 | 465 | 1,250 | 298 | 2,983 | 1,095 | - | - | 5,482 | 2,425 | **7,907** |
| variable interest | 906 | 526 | - | - | - | - | - | - | - | - | - | - | 906 | 526 | **1,432** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 1,926 | 464 | 1,926 | 464 | **2,390** |
| **Securities mandatorily measured at fair value through profit or loss** | **-** | **5,342** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **18,470** | **8,124** | **18,470** | **13,466** | **31,936** |
| variable interest | - | 5,342 | - | - | - | - | - | - | - | - | - | - | - | 5,342 | **5,342** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 18,470 | 8,124 | 18,470 | 8,124 | **26,594** |
| **Securities at fair value through other comprehensive income** | **79,240** | **5,717** | **16,218** | **-** | **111,153** | **10,223** | **3,533** | **19,578** | **551,328** | **99,229** | **528** | **15,203** | **762,000** | **149,950** | **911,950** |
| fixed interest | 600 | 5,717 | 673 | - | 100,003 | 10,223 | 3,533 | 19,578 | 551,328 | 99,229 | - | - | 656,137 | 134,747 | **790,884** |
| variable interest | 78,640 | - | 15,545 | - | 11,150 | - | - | - | - | - | - | - | 105,335 | - | **105,335** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 528 | 15,203 | 528 | 15,203 | **15,731** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| As at 31 December 2020 | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS [continued] | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | |
| **Loans measured at amortised cost** | **555,311** | **252,682** | **391,295** | **1,112,003** | **54,263** | **66,998** | **45,539** | **15,984** | **709,929** | **56,172** | **125,861** | **31,723** | **1,882,198** | **1,535,562** | **3,417,760** |
| fixed interest | 2,769 | 8,967 | 1,285 | 74,088 | 11,731 | 8,970 | 33,604 | 15,984 | 700,585 | 56,172 | - | - | 749,974 | 164,181 | **914,155** |
| variable interest | 552,542 | 243,715 | 390,010 | 1,037,915 | 42,532 | 58,028 | 11,935 | - | 9,344 | - | - | - | 1,006,363 | 1,339,658 | **2,346,021** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 125,861 | 31,723 | 125,861 | 31,723 | **157,584** |
| **Loans mandatorily measured at fair value through profit or loss** | **24,870** | **-** | **59** | **-** | **334** | **-** | **368** | **-** | **455,306** | **-** | **-** | **-** | **480,937** | **-** | **480,937** |
| variable interest | 24,870 | - | 59 | - | 334 | - | 368 | - | 455,306 | - | - | - | 480,937 | - | **480,937** |
| **Securities at amortised cost** | **-** | **-** | **-** | **1,065** | **38,112** | **-** | **393,442** | **1,092** | **1,551,614** | **22,367** | **-** | **-** | **1,983,168** | **24,524** | **2,007,692** |
| fixed interest | - | - | - | 1,065 | 38,112 | - | 393,442 | 1,092 | 1,551,614 | 22,367 | - | - | 1,983,168 | 24,524 | **2,007,692** |
| **Other financial assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **112,055** | **15,124** | **112,055** | **15,124** | **127,179** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 112,055 | 15,124 | 112,055 | 15,124 | **127,179** |
| **Derivative financial instruments** | **936,413** | **706,442** | **880,140** | **378,405** | **557,115** | **419,548** | **26,738** | **7,333** | **39,765** | **101,640** | **733,551** | **248,095** | **3,173,724** | **1,861,463** | **5,035,187** |
| fixed interest | 920,404 | 567,652 | 658,754 | 183,228 | 559,258 | 387,941 | 26,799 | 7,333 | 40,012 | 101,640 | - | - | 2,205,227 | 1,247,793 | **3,453,020** |
| variable interest | 16,010 | 138,790 | 221,387 | 195,178 | (2,143) | 31,607 | (61) | - | (247) | - | - | - | 234,945 | 365,575 | **600,520** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 733,551 | 248,095 | 733,551 | 248,095 | **981,646** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| As at 31 December 2020 | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest - bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | |
| **Amounts due to banks and deposits with the National Bank of Hungary and other banks** | **106,883** | **86,885** | **12,008** | **40,429** | **3,363** | **7,491** | **39,270** | **-** | **467,479** | **-** | **1,678** | **1,491** | **630,681** | **136,296** | **766,977** |
| fixed interest | 36,937 | 15,136 | 12,008 | 8,569 | 3,363 | 1,490 | 39,270 | - | 467,479 | - | - | - | 559,057 | 25,195 | **584,252** |
| variable interest | 69,946 | 71,749 | - | 31,860 | - | 6,001 | - | - | - | - | - | - | 69,946 | 109,610 | **179,556** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 1,678 | 1,491 | 1,678 | 1,491 | **3,169** |
| **Financial liabilities designated to measure at fair value through profit or loss** | **25,902** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **25,902** | **-** | **25,902** |
| fixed interest | 79 | - | - | - | - | - | - | - | - | - | - | - | 79 | - | **79** |
| variable interest | 25,823 | - | - | - | - | - | - | - | - | - | - | - | 25,823 | - | **25,823** |
| **Repo liabilities** | **-** | **-** | **-** | **-** | **-** | **109,612** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **109,612** | **109,612** |
| variable interest | - | - | - | - | - | 109,612 | - | - | - | - | - | - | - | 109,612 | **109,612** |
| **Deposits from customers** | **6,211,090** | **1,404,362** | **133,886** | **15,540** | **101,496** | **13,367** | **227** | **-** | **-** | **-** | **10,782** | **4,985** | **6,457,481** | **1,438,254** | **7,895,735** |
| fixed interest | 325,464 | 116,385 | 133,886 | 15,540 | 101,496 | 13,367 | 227 | - | - | - | - | - | 561,073 | 145,292 | **706,365** |
| variable interest | 5,885,626 | 1,287,977 | - | - | - | - | - | - | - | - | - | - | 5,885,626 | 1,287,977 | **7,173,603** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 10,782 | 4,985 | 10,782 | 4,985 | **15,767** |
| **Liabilities from issued securities** | **3,090** | **221** | **11,691** | **414** | **4,502** | **721** | **4,098** | **-** | **3,698** | **-** | **-** | **-** | **27,079** | **1,356** | **28,435** |
| fixed interest | 213 | - | - | - | 3,500 | - | 4,098 | - | 3,698 | - | - | - | 11,509 | - | **11,509** |
| variable interest | 2,877 | 221 | 11,691 | 414 | 1,002 | 721 | - | - | - | - | - | - | 15,570 | 1,356 | **16,926** |
| **Subordinated bonds and loans** | **-** | **-** | **-** | **120,153** | **-** | **184,090** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **304,243** | **304,243** |
| variable interest | - | - | - | 120,153 | - | 184,090 | - | - | - | - | - | - | - | 304,243 | **304,243** |
| **Leasing liabilities** | **149** | **187** | **260** | **477** | **1,267** | **2,082** | **1,333** | **1,233** | **5,747** | **1,371** | **-** | **-** | **8,756** | **5,350** | **14,106** |
| fixed interest | 103 | 11 | 69 | 40 | 528 | 170 | 707 | 65 | 2,796 | 37 | - | - | 4,203 | 323 | **4,526** |
| variable interest | 46 | 176 | 191 | 437 | 739 | 1,912 | 626 | 1,168 | 2,951 | 1,334 | - | - | 4,553 | 5,027 | **9,580** |
| **Other financial liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **138,508** | **29,032** | **138,508** | **29,032** | **167,540** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 138,508 | 29,032 | 138,508 | 29,032 | **167,540** |
| **Derivative financial instruments** | **1,264,723** | **383,260** | **1,035,481** | **206,796** | **479,506** | **492,403** | **9,453** | **24,907** | **49,757** | **89,983** | **724,945** | **253,430** | **3,563,865** | **1,450,778** | **5,014,643** |
| fixed interest | 1,111,371 | 376,748 | 648,762 | 188,722 | 481,293 | 469,699 | 9,514 | 24,907 | 50,004 | 89,802 | - | - | 2,300,945 | 1,149,878 | **3,450,822** |
| variable interest | 153,351 | 6,512 | 386,719 | 18,074 | (1,787) | 22,704 | (61) | - | (247) | 181 | - | - | 537,975 | 47,471 | **585,446** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 724,945 | 253,430 | 724,945 | 253,430 | **978,374** |
| **NET POSITION** | **(4,904,324)** | **(583,514)** | **271,828** | **1,297,462** | **214,690** | **(248,085)** | **439,867** | **21,774** | **2,906,279** | **216,230** | **304,108** | **59,231** | **(767,552)** | **763,097** | **(4,455)** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| ASSETS | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest - bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As at 31 December 2019 | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | |
| **Cash, amounts due from banks and balances with the National Bank of Hungary** | **3,997** | **44,924** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **216,133** | **24,632** | **220,130** | **69,556** | **289,686** |
| fixed interest | 3,997 | 44,924 | - | - | - | - | - | - | - | - | - | - | 3,997 | 44,924 | **48,921** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 216,133 | 24,632 | 216,133 | 24,632 | **240,765** |
| **Placements with other banks** | **279,847** | **102,963** | **409,557** | **192,520** | **182,348** | **172,320** | **27,926** | **-** | **137,228** | **30,155** | **18,324** | **6,954** | **1,055,230** | **504,912** | **1,560,142** |
| fixed interest | 1,041 | 39,292 | 33,137 | 151,361 | 637 | 168,730 | 27,926 | - | 137,228 | 30,155 | - | - | 199,969 | 389,538 | **589,507** |
| variable interest | 278,806 | 63,671 | 376,420 | 41,159 | 181,711 | 3,590 | - | - | - | - | - | - | 836,937 | 108,420 | **945,357** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 18,324 | 6,954 | 18,324 | 6,954 | **25,278** |
| **Repo receivables** | **45,539** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **45,539** | **-** | **45,539** |
| fixed interest | 45,539 | - | - | - | - | - | - | - | - | - | - | - | 45,539 | - | **45,539** |
| **Securities held for trading** | **632** | **458** | **1** | **5,929** | **2,124** | **3,908** | **4,400** | **9,166** | **10,571** | **1,181** | **7,541** | **344** | **25,269** | **20,986** | **46,255** |
| fixed interest | - | 458 | 1 | 5,529 | 2,124 | 3,908 | 4,400 | 9,166 | 10,571 | 1,181 | - | - | 17,096 | 20,242 | **37,338** |
| variable interest | 632 | - | - | 400 | - | - | - | - | - | - | - | - | 632 | 400 | **1,032** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 7,541 | 344 | 7,541 | 344 | **7,885** |
| **Securities mandatorily measured at fair value through profit or loss** | **-** | **-** | **-** | **5,180** | **-** | **-** | **-** | **-** | **-** | **-** | **17,100** | **-** | **17,100** | **5,180** | **22,280** |
| variable interest | - | - | - | 5,180 | - | - | - | - | - | - | - | - | - | 5,180 | **5,180** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 17,100 | - | 17,100 | - | **17,100** |
| **Securities at fair value through other comprehensive income** | **110,186** | **9,073** | **138,245** | **6,845** | **425,639** | **2,443** | **108,947** | **93,663** | **445,303** | **123,313** | **528** | **21,792** | **1,228,848** | **257,129** | **1,485,977** |
| fixed interest | 47,975 | 9,073 | 123,562 | 6,845 | 410,889 | 2,443 | 108,947 | 93,663 | 445,303 | 123,313 | - | - | 1,136,676 | 235,337 | **1,372,013** |
| variable interest | 62,211 | - | 14,683 | - | 14,750 | - | - | - | - | - | - | - | 91,644 | - | **91,644** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 528 | 21,792 | 528 | 21,792 | **22,320** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| As at 31 December 2019 | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS [continued]** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | **HUF** | **foreign currency** | |
| **Loans measured at amortised cost** | **364,280** | **50,168** | **359,142** | **273,935** | **340,521** | **1,023,840** | **29,577** | **6,595** | **439,199** | **55,290** | **113,446** | **20,538** | **1,646,165** | **1,430,366** | **3,076,531** |
| fixed interest | 152 | 28,661 | 814 | 107,804 | 10,851 | 7,685 | 25,644 | 6,595 | 433,294 | 55,290 | - | - | 470,755 | 206,035 | **676,790** |
| variable interest | 364,128 | 21,507 | 358,328 | 166,131 | 329,670 | 1,016,155 | 3,933 | - | 5,905 | - | - | - | 1,061,964 | 1,203,793 | **2,265,757** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 113,446 | 20,538 | 113,446 | 20,538 | **133,984** |
| **Loans mandatorily measured at fair value through profit or loss** | **29,826** | **-** | **121** | **-** | **379** | **-** | **463** | **-** | **207,749** | **-** | **-** | **-** | **238,538** | **-** | **238,538** |
| variable interest | 29,826 | - | 121 | - | 379 | - | 463 | - | 207,749 | - | - | - | 238,538 | - | **238,538** |
| **Securities at amortised cost** | **-** | **-** | **-** | **-** | **86,578** | **-** | **38,125** | **-** | **1,322,521** | **-** | **-** | **-** | **1,447,224** | **-** | **1,447,224** |
| fixed interest | - | - | - | - | 86,578 | - | 38,125 | - | 1,322,521 | - | - | - | 1,447,224 | - | **1,447,224** |
| **Other financial assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **80,862** | **8,620** | **80,862** | **8,620** | **89,482** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 80,862 | 8,620 | 80,862 | 8,620 | **89,482** |
| **Derivative financial instruments** | **963,211** | **434,210** | **847,077** | **359,966** | **765,879** | **460,639** | **15,461** | **273,268** | **20,355** | **85,686** | **326,585** | **206,753** | **2,938,568** | **1,820,522** | **4,759,090** |
| fixed interest | 927,322 | 424,177 | 697,547 | 335,776 | 766,569 | 424,851 | 15,461 | 273,268 | 20,355 | 85,686 | - | - | 2,427,254 | 1,543,758 | **3,971,012** |
| variable interest | 35,889 | 10,033 | 149,530 | 24,190 | (690) | 35,788 | - | - | - | - | - | - | 184,729 | 70,011 | **254,740** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 326,585 | 206,753 | 326,585 | 206,753 | **533,338** |

## NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### *35.4. Interest rate risk management [continued]*

| As at 31 December 2019 | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest - bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | HUF | foreign currency | |
| **Amounts due to banks and deposits with the National Bank of Hungary and other banks** | **285,808** | **189,729** | **65,914** | **76,986** | **4,820** | **17,091** | **1,102** | **-** | **94,949** | **-** | **8** | **1,647** | **452,601** | **285,453** | **738,054** |
| fixed interest | 231,909 | 83,070 | 65,914 | 3,430 | 4,820 | 5,053 | 1,102 | - | 94,949 | - | - | - | 398,694 | 91,553 | **490,247** |
| variable interest | 53,899 | 106,659 | - | 73,556 | - | 12,038 | - | - | - | - | - | - | 53,899 | 192,253 | **246,152** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 8 | 1,647 | 8 | 1,647 | **1,655** |
| **Financial liabilities designated to measure at fair value through profit or loss** | **28,861** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **28,861** | **-** | **28,861** |
| fixed interest | 102 | - | - | - | - | - | - | - | - | - | - | - | 102 | - | **102** |
| variable interest | 28,759 | - | - | - | - | - | - | - | - | - | - | - | 28,759 | - | **28,759** |
| **Repo liabilities** | **20,574** | **-** | **-** | **-** | **-** | **-** | **263,554** | **178,493** | **-** | **-** | **-** | **-** | **284,128** | **178,493** | **462,621** |
| fixed interest | 20,574 | - | - | - | - | - | 263,554 | 178,493 | - | - | - | - | 284,128 | 178,493 | **462,621** |
| **Deposits from customers** | **5,210,837** | **1,059,229** | **170,649** | **19,293** | **92,329** | **10,290** | **215** | **-** | **-** | **-** | **7,192** | **3,516** | **5,481,222** | **1,092,328** | **6,573,550** |
| fixed interest | 392,749 | 124,384 | 170,649 | 19,293 | 92,329 | 10,290 | 215 | - | - | - | - | - | 655,942 | 153,967 | **809,909** |
| variable interest | 4,818,088 | 934,845 | - | - | - | - | - | - | - | - | - | - | 4,818,088 | 934,845 | **5,752,933** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 7,192 | 3,516 | 7,192 | 3,516 | **10,708** |
| **Liabilities from issued securities** | **16,708** | **552** | **12,565** | **1,265** | **4,728** | **1,936** | **3,451** | **-** | **2,079** | **-** | **-** | **-** | **39,531** | **3,753** | **43,284** |
| fixed interest | 218 | - | - | - | 3,282 | - | 3,451 | - | 2,079 | - | - | - | 9,030 | - | **9,030** |
| variable interest | 16,490 | 552 | 12,565 | 1,265 | 1,446 | 1,936 | - | - | - | - | - | - | 30,501 | 3,753 | **34,254** |
| **Subordinated bonds and loans** | **-** | **-** | **-** | **112,792** | **-** | **166,602** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **279,394** | **279,394** |
| variable interest | - | - | - | 112,792 | - | 166,602 | - | - | - | - | - | - | - | 279,394 | **279,394** |
| **Leasing liabilities** | **62** | **136** | **123** | **272** | **1,107** | **2,126** | **1,147** | **1,702** | **4,399** | **2,586** | **-** | **-** | **6,838** | **6,822** | **13,660** |
| fixed interest | 62 | 136 | 123 | 272 | 1,107 | 2,126 | 1,147 | 1,702 | 4,399 | 2,586 | - | - | 6,838 | 6,822 | **13,660** |
| **Other financial liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **139,657** | **51,434** | **139,657** | **51,434** | **191,091** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 139,657 | 51,434 | 139,657 | 51,434 | **191,091** |
| **Derivative financial instruments** | **1,272,904** | **127,050** | **829,127** | **357,480** | **623,979** | **588,255** | **281,358** | **8,783** | **36,475** | **72,359** | **278,557** | **255,503** | **3,322,400** | **1,409,430** | **4,731,830** |
| fixed interest | 1,222,356 | 121,202 | 688,335 | 341,669 | 624,021 | 567,255 | 281,358 | 8,783 | 36,475 | 72,148 | - | - | 2,852,545 | 1,111,057 | **3,963,602** |
| variable interest | 50,548 | 5,848 | 140,792 | 15,811 | (42) | 21,000 | - | - | - | 211 | - | - | 191,298 | 42,870 | **234,168** |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 278,557 | 255,503 | 278,557 | 255,503 | **534,060** |
| **NET POSITION** | **(5,038,236)** | **(734,900)** | **675,765** | **276,287** | **1,076,505** | **876,850** | **(325,928)** | **193,714** | **2,445,024** | **220,680** | **355,105** | **(22,467)** | **(811,765)** | **810,164** | **(1,601)** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### *35.5. Market risk*

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 35.2, 35.3 and 35.4 respectively.)

#### 35.5.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

| **Historical VaR (99%, one-day) by risk type** | **Average** | |
|---|---|---|
| | **2020** | **2019** |
| Foreign exchange | 1,507 | 337 |
| Interest rate | 77 | 97 |
| Equity instruments | 141 | 21 |
| Diversification | - | - |
| **Total VaR exposure** | **1,725** | **455** |

While VaR captures the OTP's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 35.5.2., for interest rate risk in Note 35.5.3., and for equity price sensitivity analysis in Note 35.5.4.

#### 35.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to the rise and fall in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only the residual foreign currency denominated monetary items as partially closed strategic open positions related to foreign activities.
In accordance with the Bank's decision, the subsidiaries' P&L measured in EUR is going to have a higher weight than measured in HUF. Thus, a decision was made about closing the former EUR (310) million strategic open position. As a result of the partial close, an open position of EUR (132) million remained in the Bank's book evaluated against profit or loss as of 31 December 2020.
A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.5. Market risk [continued]***

**35.5.2. Foreign currency sensitivity analysis [continued]**

| Probability | Effects to the P&L in 3 months period 31 December 2020 In HUF billion | 31 December 2019 In HUF billion |
|---|---|---|
| 1% | (5.9) | (12.2) |
| 5% | (4.1) | (8.4) |
| 25% | (1.7) | (3.5) |
| 50% | (0.2) | (0.4) |
| 25% | 1.2 | 2.6 |
| 5% | 3.2 | 6.8 |
| 1% | 4.6 | 9.7 |

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2020.

**35.5.3. Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the adverting interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The sensitivity of interest income to changes in BUBOR was analysed assuming two interest rate path scenarios:

1. HUF base rate and BUBOR decreases gradually by 15 bps over the next year (probable scenario)
2. HUF base rate and BUBOR decreases gradually by 60 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2021 would be decreased by HUF 1,476 million (probable scenario) and HUF 6,420 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,261 million (probable scenario) and HUF 3,256 million (alternative scenario) decrease in the Net interest income in a one year period after 1 January 2020. This effect is counterbalanced by capital gains HUF 584 million (or probable scenario), HUF 2,329 million (for alternative scenario) as at 31 December 2020 and (HUF 223 million for probable scenario, HUF 2,670 million for alternative scenario as at 31 December 2019) on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

| Description | 2020 Effects to the net interest income (one-year period) | 2020 Effects to shareholder's equity (Price change of FVOCI government bonds) | 2019 Effects to the net interest income (one-year period) | 2019 Effects to shareholder's equity (Price change of FVOCI government bonds) |
|---|---|---|---|---|
| HUF (0.1%) parallel shift | (1,991) | 389 | (1,793) | 558 |
| EUR (0.1%) parallel shift | (676) | - | (673) | - |
| USD (0.1%) parallel shift | (165) | - | (104) | - |
| **Total** | **(2,832)** | **389** | **(2,570)** | **558** |

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.5. Market risk [continued]***

**35.5.4. Equity price sensitivity analysis**

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

| Description | 2020 | 2019 |
|---|---|---|
| VaR (99%, one day, million HUF) | 141 | 21 |
| Stress test (million HUF) | (233) | (52) |

***35.6. Capital management***

**Capital management**

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

**Capital adequacy**

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The Bank has entirely complied with the regulatory capital requirements in 2020 as well as in 2019.

The Bank’s capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2020 and 2019. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

**NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

***35.6. Capital management [continued]***

**Capital adequacy [continued]**

The calculation of the Capital Adequacy ratio as at 31 December 2020 and 2019 is as follows:

| | **2020[1]** **Basel III** | **2019** **Basel III** |
|---|---|---|
| Core capital (Tier 1) | 1,598,295 | 1,559,656 |
| *Primary core capital (CET1)* | *1,598,295* | *1,559,656* |
| *Supplementary core capital (AT1)* | - | - |
| Supplementary capital (Tier 2) | 295,795 | 276,699 |
| **Regulatory capital** | **1,894,090** | **1,836,355** |
| Credit risk capital requirement | 526,283 | 511,588 |
| Market risk capital requirement | 11,550 | 9,628 |
| Operational risk capital requirement | 27,597 | 31,569 |
| **Total eligible regulatory capital** | **565,430** | **552,785** |
| **Surplus capital** | **1,328,660** | **1,283,570** |
| CET 1 ratio | 22.61% | 22.57% |
| **Capital adequacy ratio** | **26.80%** | **26.58%** |

**Basel III:**

Common equity Tier 1 capital (CET1):

Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier 2 capital:

Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

[1] *Due to the COVID 19 pandemic, in order to strengthen the banking system, National Bank of Hungary recommended banks that dividends are neither approved, nor paid until 30 September 2021. But the potential amount of dividend is deducted from the regulatory capital due to prudential reasons (in accordance with regulation 241/2014 EU). The final amount of dividend payment depends on the decision of the Annual General Meeting.*

## NOTE 36: TRANSFER AND RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

**Reclassification from securities held-for-trading to securities measured at fair value through other comprehensive income**

**As at 31 December 2020**

| Date of reclassification | Reason | Type of securities | Nominal value | Fair value | EIR at the date | Interest income |
|---|---|---|---|---|---|---|
| 1 September 2018 | Change in business model | retail hungarian government bonds | 1,069 | 1,087 | 2%-3% | 28 |

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66.506 million were transferred from the trading portfolio to the securities measured at fair value through other comprehensive income, of which HUF 1,087 million remaining amount was presented as at 31 December 2020. The Bank has previously held retail government bonds in the portfolio measured at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

**Financial assets transferred but not derecognised**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Transferred assets | Associated liabilities | Transferred assets | Associated liabilities |
| | Carrying amount | | | |
| Securities measured at fair value through other comprehensive income | - | - | 110 | 111 |
| Securities measured at amortised cost | 125,244 | 109,612 | 438,846 | 462,510 |
| **Total** | **125,244** | **109,612** | **438,956** | **462,621** |

As at 31 December 2020 and 2019, the Bank had obligation from repurchase agreements about HUF 110 billion and HUF 463 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Statement of Financial Position of the Bank in the appropriate securities category. The related liability is measured at amortized cost in the Statement of Financial Position as 'Amounts due to banks and deposits from the National Bank of Hungary and other banks'. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

## NOTE 37: OFF-BALANCE SHEET ITEMS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

**Contingent liabilities and commitments**

| | 2020 | 2019 |
|---|---|---|
| Loan commitments | 1,441,060 | 1,494,508 |
| Guarantees arising from banking activities | 1,419,543 | 1,087,300 |
| *from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank* | 683,736 | 558,100 |
| Factoring loan commitments | 305,269 | 228,145 |
| Confirmed letters of credit | 5,039 | 749 |
| **Contingent liabilities and commitments total in accordance with IFRS 9** | **3,170,911** | **2,810,702** |
| Legal disputes (disputed value) | 4,720 | 5,233 |
| Liabilities due to venture capital fund contribution | 32,712 | 17,142 |
| Other | 602 | 2,665 |
| **Contingent liabilities and commitments total in accordance with IAS 37** | **38,034** | **25,040** |
| **Total** | **3,208,945** | **2,835,742** |

**Legal disputes**

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes was HUF 199 million and HUF 663 million as at 31 December 2020 and 2019, respectively. (See Note 24.)

**Commitments to extend credit, guarantees and letter of credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

## NOTE 37: OFF-BALANCE SHEET ITEMS (in HUF mn) [continued]

**Guarantees, payment undertakings arising from banking activities**

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

**Contingent liabilities related to OTP Mortgage Bank Ltd.**

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

## NOTE 38: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

During implementation of the Remuneration Policy of the Group it became apparent that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1].

The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.

At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies.

[1] Until the end of 2014 Board of Directors

**NOTE 38: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]**

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

The parameters for the share-based payment relating to the years from 2015 by Supervisory Board for periods of each year as follows:

| Year | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share |
|---|---|---|---|---|---|---|---|---|---|
| | Exercise price | Maximum earnings per share | | Exercise price | Maximum earnings per share | | Exercise price | Maximum earnings per share | |
| | HUF per share | | | | | | | | |
| | **for the year 2015** | | | **for the year 2016** | | | **for the year 2017** | | |
| 2016 | 4,892 | 2,500 | 6,892 | - | - | - | - | - | - |
| 2017 | 4,892 | 3,000 | 6,892 | 7,200 | 2,500 | 9,200 | - | - | - |
| 2018 | 4,892 | 3,000 | 6,892 | 7,200 | 3,000 | 9,200 | 8,064 | 3,000 | 10,064 |
| 2019 | 4,892 | 3,000 | 6,892 | 7,200 | 3,500 | 9,200 | 8,064 | 3,500 | 10,064 |
| 2020 | - | - | - | 7,200 | 4,000 | 9,200 | 8,064 | 4,000 | 10,064 |
| 2021 | - | - | - | - | - | - | 8,064 | 4,000 | 10,064 |
| 2022 | - | - | - | - | - | - | 8,064 | 4,000 | 10,064 |

| Year | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share |
|---|---|---|---|---|---|---|
| | Exercise price | Maximum earnings per share | | Exercise price | Maximum earnings per share | |
| | HUF per share | | | | | |
| | **for the year 2018** | | | **for the year 2019** | | |
| 2019 | 10,413 | 4,000 | 12,413 | - | - | - |
| 2020 | 10,413 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2021 | 10,413 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2022 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2023 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2024 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2025 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2026 | - | - | - | 9,553 | 4,000 | 11,553 |

**NOTE 38: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]**

Based on parameters accepted by Supervisory Board, relating to the year **2016** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable at 31 December 2020 |
|---|---|---|---|---|---|
| Share-purchasing period started in 2017 | 147,984 | 147,984 | 9,544 | - | - |
| Remuneration exchanged to share provided in 2017 | 4,288 | 4,288 | 9,194 | - | - |
| Share-purchasing period started in 2018 | 321,528 | 321,528 | 10,387 | - | - |
| Remuneration exchanged to share provided in 2018 | 8,241 | 8,241 | 10,098 | - | - |
| Share-purchasing period started in 2019 | 161,446 | 161,446 | 12,415 | - | - |
| Remuneration exchanged to share provided in 2019 | 4,033 | 4,033 | 11,813 | - | - |
| Share-purchasing period starting in 2020 | 166,231 | 164,039 | 13,585 | - | 2,192 |
| Remuneration exchanged to share applying in 2020 | 4,303 | 4,303 | 11,897 | - | - |

Based on parameters accepted by Supervisory Board, relating to the year **2017** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable at 31 December 2020 |
|---|---|---|---|---|---|
| Share-purchasing period started in 2018 | 108,243 | 108,243 | 11,005 | - | - |
| Remuneration exchanged to share provided in 2018 | 11,926 | 11,926 | 10,098 | - | - |
| Share-purchasing period started in 2019 | 212,282 | 212,282 | 12,096 | - | - |
| Remuneration exchanged to share provided in 2019 | 26,538 | 26,538 | 11,813 | - | - |
| Share-purchasing period starting in 2020 | 101,571 | 94,830 | 11,878 | - | 6,741 |
| Remuneration exchanged to share applying in 2020 | 11,584 | 11,584 | 11,897 | - | - |
| Share-purchasing period starting in 2021 | - | - | - | - | 120,981 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 12,838 |
| Share-purchasing period starting in 2022 | - | - | - | - | 42,820 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 3,003 |

**NOTE 38: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]**

Based on parameters accepted by Supervisory Board, relating to the year **2018** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable at 31 December 2020 |
|---|---|---|---|---|---|
| Share-purchasing period started in 2019 | 82,854 | 82,854 | 13,843 | - | - |
| Remuneration exchanged to share provided in 2019 | 17,017 | 17,017 | 11,829 | - | - |
| Share-purchasing period starting in 2020 | 150,230 | 3,448 | 12,471 | - | 146,782 |
| Remuneration exchanged to share applying in 2020 | 33,024 | 33,024 | 11,897 | - | - |
| Share-purchasing period starting in 2021 | - | - | - | - | 74,529 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 16,167 |
| Share-purchasing period starting in 2022 | - | - | - | - | 99,341 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 17,042 |
| Share-purchasing period starting in 2023 | - | - | - | - | 45,155 |
| Remuneration exchanged to share applying in 2023 | - | - | - | - | 4,114 |
| Remuneration exchanged to share applying in 2024 | - | - | - | - | 864 |
| Remuneration exchanged to share applying in 2025 | - | - | - | - | 432 |

Based on parameters accepted by Supervisory Board, relating to the year **2019** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable at 31 December 2020 |
|---|---|---|---|---|---|
| Share-purchasing period started in 2019 | 91,403 | 91,403 | 12,218 | - | - |
| Remuneration exchanged to share provided in 2019 | 22,806 | 22,806 | 11,897 | - | - |
| Share-purchasing period starting in 2020 | - | - | - | - | 202,386 |
| Remuneration exchanged to share applying in 2020 | - | - | - | - | 32,238 |
| Share-purchasing period starting in 2021 | - | - | - | - | 109,567 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 15,554 |
| Share-purchasing period starting in 2022 | - | - | - | - | 125,771 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 18,025 |
| Share-purchasing period starting in 2023 | - | - | - | - | 44,421 |
| Remuneration exchanged to share applying in 2023 | - | - | - | - | 6,279 |
| Remuneration exchanged to share applying in 2024 | - | - | - | - | 1,000 |
| Remuneration exchanged to share applying in 2025 | - | - | - | - | 500 |

Effective pieces relating to the periods starting in 2021-2026 settled during valuation of performance of year 2017-2019, can be modified based on risk assessment and personal changes,

In connection with the share-based compensation for Board of Directors and connecting compensation, shares given as a part of payments detailed above and for the year 2020 based on performance assessment accounted as equity-settled share based transactions HUF 3,394 million was recognized as expense for the year ended 31 December 2020.

## NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

### *39.1. Loans provided to related parties*

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Gross carrying amount** | **Loss allowance** | **Gross carrying amount** | **Loss allowance** |
| OTP Financing Malta Company Ltd. (Malta) | 726,619 | (3,903) | 716,721 | (4,053) |
| OTP Mortgage Bank Ltd. | 585,732 | (1,356) | 676,761 | (956) |
| Merkantil Bank Ltd. | 341,436 | (2,161) | 361,671 | (1,348) |
| OTP banka dioničko drustvo (Croatia) | 114,385 | - | - | - |
| OTP Employee Stock Ownership Program (OTP ESOP) | 53,580 | - | - | - |
| Crnogorska komercijalna banka a.d. (Montenegro) | 50,635 | (351) | 3,304 | - |
| OTP Real Estate Leasing Ltd. | 48,555 | (505) | 32,936 | (566) |
| OTP banka Srbija a.d. (Serbia) | 37,670 | (128) | 123,244 | (523) |
| Vojvodanska Banka ad Novi Sad | 37,556 | (171) | 86,756 | (347) |
| OTP Bank Romania S.A. (Romania) | 1,544 | (1,461) | 9,911 | - |
| Air-Invest Llc. | 1,150 | (1,150) | - | - |
| JN Parkolóház Llc. | 4,324 | (628) | 4,284 | (30) |
| Other | 82,699 | (490) | 202,888 | (432) |
| **Total** | **2,085,885** | **(12,304)** | **2,218,476** | **(8,255)** |

### *39.2. Deposits from related parties*

| | 2020 | 2019 |
|---|---|---|
| OTP Funds Servicing and Consulting Ltd. | 126,867 | 84,035 |
| JSC "OTP Bank" (Russia) | 79,685 | 108,691 |
| Merkantil Bank Ltd. | 29,866 | 7,289 |
| OTP Building Society Ltd. | 25,982 | 41,383 |
| Bank Center Llc. | 21,938 | 22,214 |
| Inga Kettő Ltd. | 18,404 | 10,615 |
| OTP Factoring Ltd. | 16,112 | 16,064 |
| OTP Holding Ltd. / OTP Financing Ciprus Co. Ltd. (Ciprus) | 7,937 | 17,095 |
| Air-Invest Llc. | 6,904 | 4,033 |
| OTP Employee Stock Ownership Program (OTP ESOP) | 6,284 | 7,089 |
| Balansz Private Open-end Investment Fund | 5,662 | 6,745 |
| OTP Mortgage Bank Ltd. | 4,692 | 31,789 |
| OTP Real Estate Investment Fund Management Ltd. | 4,411 | 4,370 |
| Crnogorska komercijalna banka a.d. (Montenegro) | 1,988 | 8,864 |
| OTP banka Hrvatska d.d. (Croatia) | 1,736 | 21,964 |
| DSK Bank EAD (Bulgaria) | 1,125 | 363,072 |
| OTP Bank JSC (Ukraine) | 402 | 11,493 |
| OTP Bank Romania S.A. (Romania) | 331 | 43,608 |
| Expressbank AD (Bulgaria) | - | 134,235 |
| Other | 40,324 | 42,337 |
| **Total** | **400,650** | **986,985** |

**NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

***39.3. Interests received by the Bank[1]***

| | 2020 | 2019 |
|---|---|---|
| OTP Financing Malta Company Ltd. (Malta) | 10,445 | 15,538 |
| Merkantil Bank Ltd. | 5,312 | 4,621 |
| OTP Mortgage Bank Ltd. | 3,931 | 1,416 |
| Other | 1,308 | 1,057 |
| **Total** | **20,996** | **22,632** |

***39.4. Interests paid by the Bank[1]***

| | 2020 | 2019 |
|---|---|---|
| JSC "OTP Bank" (Russia) | 4,790 | 7,688 |
| Merkantil Bank Ltd. | 287 | 12 |
| OTP Funds Servicing and Consulting Ltd. | 226 | 225 |
| OTP Financial Point Ltd. | 176 | 2 |
| DSK Bank EAD (Bulgaria) | 110 | 3,532 |
| OTP banka Hrvatska d.d. (Croatia) | 32 | 94 |
| Expressbank AD (Bulgaria) | - | 1,448 |
| Other | 603 | 472 |
| **Total** | **6,224** | **13,473** |

***39.5. Commissions received by the Bank***

| | 2020 | 2019 |
|---|---|---|
| From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts) | 6,820 | 4,550 |
| From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity | 3,941 | 4,886 |
| From OTP Fund Management Ltd. in relation to trading activity | 3,667 | 4,596 |
| OTP Mobile Service Llc. | 2,873 | 1,656 |
| OTP Funds Servicing and Consulting Ltd. | 554 | 512 |
| From OTP Banka Srbija AD Beograd Ljubljana in relation to loans, deposits and money transfer | 325 | 100 |
| From SKB Banka d.d. Ljubljana in relation to loans, deposits and money transfer | 286 | - |
| Other | 1,407 | 1,077 |
| **Total** | **19,873** | **17,377** |

***39.6. Commissions paid by the Bank***

| | 2020 | 2019 |
|---|---|---|
| OTP Faktoring Ltd. related to commission fee | 151 | 224 |
| OTP Pénzügyi Pont Ltd. | 593 | 173 |
| **Total** | **744** | **397** |

***39.7. Transactions related to OTP Mortgage Bank Ltd.:***

| | 2020 | 2019 |
|---|---|---|
| Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans | 8,725 | 11,836 |

[1] Derivatives and interest on securities are not included.

**NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

***39.8. Transactions related to OTP Factoring Ltd.:***

| | 2020 | 2019 |
|---|---|---|
| The gross book value of the loans sold | 6,339 | 16,410 |
| Loss allowance for loan losses on the loans sold | 4,443 | 10,950 |
| Loans sold to OTP Factoring Ltd. without recourse (including interest) | 1,115 | 3,304 |
| Loss on these transaction (recorded in the separate financial statements as loan and placement loss) | 781 | 2,156 |

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

***39.9. Transactions related to OTP Banka Slovensko a.s. (Slovakia)***

| | 2020 | 2019 |
|---|---|---|
| Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million) | - | 14,873 |

***39.10. Related party transactions with key management***

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

| | 2020 | 2019 |
|---|---|---|
| Short-term employee benefits | 2,923 | 2,143 |
| Share-based payment | 2,619 | 2,732 |
| Long-term employee benefits (on the basis of IAS 19) | 278 | 304 |
| **Total** | **5,820** | **5,179** |

| | 2020 | 2019 |
|---|---|---|
| Loans provided to companies owned by the Management (in the normal course of business) | 87,791 | 54,325 |
| Commitments to extend credit and bank guarantees | 36,738 | 27,624 |

**NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

***39.10. Related party transactions with key management [continued]***

**Outstanding balances and of banking products provided to key management as at 31 December 2020**

| Type of product | Total | Members of Board of Directors and their close family members | Members of Supervisory board and their close family members | Executive and their close family members | Interest conditions | Handling charges | Annual fee | Collateral |
|---|---|---|---|---|---|---|---|---|
| Mastercard Bonus Gold/MasterCard Arany | **87** | 12 | 2 | 73 | 26.37%-31.77% | - | 12,038-20,596 HUF | Income received to bank account |
| Mastercard Bonus/Mastercard Klasszik | **3** | 2 | 1 | - | 26.85%-30.45% | - | 6,656 HUF | Income received to bank account |
| Visa Infinite | **142** | 27 | 5 | 110 | 29.73%-29.85% | - | 12,038-20,916 HUF | Income received to bank account |
| **Credit cards total** | **232** | **41** | **8** | **183** | | | | |
| Overdraft loans | **254** | 91 | 4 | 159 | 5,59%-30% | 1% | - | Income received to bank account |
| Lombard loans | **55,486** | 54,044 | - | 1.442 | 2.26%-3.26% | - | - | Government bond, Shares in investment funds |
| Personal loans | **22** | 8 | - | 14 | 5.67%-11.99% | - | - | Income received to bank account |
| Baby expecting loans | **75** | 9 | - | 66 | 0.00% | - | - | Income received to bank account and state guarantee |
| Mortgage loan | **34** | - | - | 34 | 3.19%-3.56% | 1% | - | Property |

**Outstanding balances and of banking products provided to key management as at 31 December 2019**

| Type of product | Total | Members of Board of Directors and their close family members | Members of Supervisory board and their close family members | Executive and their close family members | Interest conditions | Handling charges | Annual fee | Collateral |
|---|---|---|---|---|---|---|---|---|
| MasterCard Arany | **12** | 11 | - | 1 | floating, monthly 2.23% | - | 15,834 HUF | Income received to bank account |
| Mastercard Bonus Gold | **38** | 5 | - | 33 | floating, monthly 2.46% | - | 16,966 HUF | Income received to bank account |
| Visa Infinite | **94** | 20 | 5 | 69 | floating, monthly 2.49% | - | 20,288 HUF | Income received to bank account |
| **Credit cards total** | **144** | **36** | **5** | **103** | | | | |
| Overdraft loans | **87** | 84 | 3 | - | central bank base rate+5% | 1% | - | Income received to bank account |
| Lombard loans | **55,080** | 53,661 | - | 1,419 | 0.66% - 2.39% | - | - | Government bond, Long Term Investment Account, Shares in investment funds |
| Personal loans | **7** | - | - | 7 | 11.99% - 17.99% | - | - | Income received to bank account |

**NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

**An analysis of payment to Executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):**

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors | 1,012 | 1,310 |
| Members of Supervisory Board | 116 | 113 |
| **Total** | **1,128** | **1,423** |

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

**NOTE 40: TRUST ACTIVITIES (in HUF mn)**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

| | 2020 | 2019 |
|---|---|---|
| Loans managed by the Bank as a trustee | 28,055 | 29,296 |

## NOTE 41: CONCENTRATION OF ASSETS AND LIABILITIES

| | 2020 | 2019 |
|---|---|---|
| **In the percentage of the total assets** | | |
| Receivables from, or securities issued by the Hungarian Government or the NBH | 22.69% | 23.18% |
| Securities issued by the OTP Mortgage Bank Ltd. | 2.24% | 1.76% |
| Loans at amortised cost | 6.48% | 7.03% |

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2020 or 31 December 2019.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the largest 50 depositors towards OTP Bank. Further to this obligatory reporting to the Authority. OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of OTP Bank in charge of partner-risk management analyses the largest partners on a constant basis and sets limits on OTP Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

The Bank's internal regulation (Limit-management regulation) controls risk management which related to exposures of clients. Bank makes a difference between clients or clients who are economically connected with each other, partners, partners operating in the same geographical region or in the same economic sector, exposures from customers. Limit-management regulation includes a specific range provisions system used by Bank to control risk exposures. This regulation has to be used by the Bank for its business (lending) risk-taking activity in both the retail and corporate sector.

To specify credit risk limits, the Bank strives their clients get an acceptable margin of risk based on their financial situation. In the Bank limit system a lower level decision-making delegation has to be provided.

If an OTP group member takes risk against a client or group of clients (either inside the local economy or outside), the client will be qualified as a group level risk and these limits will be specified at group level.

The validity period of this policy is 12 months. The limit shall be reviewed prior to the expiry date but at least once a year based on the relevant information required to limit calculations.

The maximum credit exposure to any client or counterparty among Loans at amortised cost was HUF 722 billion and HUF 713 billion as at 31 December 2020 and 2019 respectively, before taking into account collateral or other credit enhancements.

## NOTE 42: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

| | 2020 | 2019 |
|---|---|---|
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 92,474 | 193,354 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 277,301,936 | 279,697,301 |
| **Basic Earnings per share (in HUF)** | **333** | **691** |
| Separate net profit for the year attributable to ordinary shareholders (in HUF mn) | 92,474 | 193,354 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 277,310,069 | 279,721,775 |
| Diluted Earnings per share (in HUF) | **333** | **691** |

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | (2,698,074) | (302,709) |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **277,301,936** | **279,697,301** |
| Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1] | 8,133 | 24,474 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **277,310,069** | **279,721,775** |

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period presented.

[1] In 2020 and 2019 dilutive effect is in connection with the Remuneration Policy.

## NOTE 43: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

| For the year ended 31 December 2020 | Net interest income and expense | Net non-interest gain and loss | Loss allowance | Other comprehensive income |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4,369 | - | - | - |
| Placements with other banks, net of allowance for placement losses | 10,650 | - | 2,227 | - |
| Repo receivables | 49 | - | 286 | - |
| Loans | 143,650 | 23,298 | 55,444 | - |
| Securities at amortised cost | 48,654 | 360 | 1,845 | - |
| **Financial assets measured at amortised cost total** | **207,372** | **23,658** | **59,802** | **-** |
| **Financial assets measured at fair value** | - | - | - | - |
| Securities held for trading | 368 | 2,251 | - | - |
| Securities at fair value through other comprehensive income | 29,095 | 6,073[1] | 3 | (17,734) |
| Loans mandatorily measured at fair value through profit or loss | 15,094 | 2,125 | - | - |
| **Financial assets measured at fair value total** | **44,557** | **10,449** | **3** | **(17,734)** |
| **Financial liabilities measured at amortised cost** | | | | |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (9,862) | - | - | - |
| Repo liabilities | (1,476) | - | - | - |
| Deposits from customers | (3,985) | 216,512 | - | - |
| Leasing liabilities | (244) | - | - | - |
| Liabilities from issued securities | (598) | - | - | - |
| Subordinated bonds and loans | (8,327) | - | - | - |
| **Financial liabilities measured at amortised cost total** | **(24,492)** | **216,512** | **-** | **-** |
| **Financial liabilities designated to measure at fair value through profit or loss** | **(307)** | **1,270** | **-** | **-** |
| **Derivative financial instruments[2]** | **(5,053)** | **5,818** | **-** | **-** |
| **Total** | **222,077** | **257,707** | **59,805** | **(17,734)** |

[1] For the year ended 31 December 2020 HUF 6,073 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.
[2] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

**NOTE 43: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

| For the year ended 31 December 2019 | Net interest income and expense | Net non-interest gain and loss | Loss allowance | Other comprehensive income |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 1,188 | - | - | - |
| Placements with other banks, net of allowance for placement losses | 5,789 | - | 1,545 | - |
| Repo receivables | 95 | - | (6) | - |
| Loans | 137,161 | 19,674 | 7,680 | - |
| Securities at amortised cost | 47,119 | 714 | (225) | - |
| **Financial assets measured at amortised cost total** | **191,352** | **20,388** | **8,994** | **-** |
| **Financial assets measured at fair value** | | | | |
| Securities held for trading | 231 | 739 | - | - |
| Securities at fair value through other comprehensive income | 40,329 | 8,408[1] | (176) | 20,599 |
| Loans mandatorily measured at fair value through profit or loss | 5,106 | (418) | - | - |
| **Financial assets measured at fair value total** | **45,666** | **8,729** | **(176)** | **20,599** |
| **Financial liabilities measured at amortised cost** | - | - | - | - |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (11,300) | - | - | - |
| Repo liabilities | (3,995) | - | - | - |
| Deposits from customers | (3,726) | 210,822 | - | - |
| Leasing liabilities | (244) | - | - | - |
| Liabilities from issued securities | (2,214) | - | - | - |
| Subordinated bonds and loans | (5,323) | - | - | - |
| **Financial liabilities measured at amortised cost total** | **(26,802)** | **210,822** | **-** | **-** |
| **Financial liabilities designated to measure at fair value through profit or loss** | **(367)** | **(21)** | **-** | **-** |
| **Derivative financial instruments[2]** | **(5,064)** | **3,675** | **-** | **-** |
| **Total** | **204,785** | **243,593** | **8,818** | **20,599** |

[1] For the year ended 31 December 2019 HUF 8,408 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.
[2] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

## NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 43. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e,g, Reuters), Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

## NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

### a) Fair value of financial assets and liabilities

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 579,120 | 579,120 | 289,686 | 289,686 |
| Placements with other banks, net of allowance for placement losses | 1,535,884 | 1,550,747 | 1,560,142 | 1,532,900 |
| Repo receivables | 183,364 | 183,664 | 45,539 | 45,546 |
| Financial assets at fair value through profit or loss | 160,483 | 160,483 | 172,229 | 172,229 |
| *Held for trading securities* | *11,729* | *11,729* | *46,255* | *46,255* |
| *Held for trading derivative financial instruments* | *116,818* | *116,818* | *103,694* | *103,694* |
| *Securities mandatorily measured at fair value through profit or loss* | *31,936* | *31,936* | *22,280* | *22,280* |
| Securities at fair value through other comprehensive income | 911,950 | 911,950 | 1,485,977 | 1,485,977 |
| Loans at amortised cost | 3,417,760 | 3,710,048 | 3,076,531 | 3,400,670 |
| Loans mandatorily measured at fair value through profit or loss | 480,937 | 480,937 | 238,538 | 238,538 |
| Securities held-to-maturity | 2,007,692 | 2,085,881 | 1,447,224 | 1,570,899 |
| Derivative financial assets designated as hedging accounting | 6,817 | 6,817 | 16,677 | 16,677 |
| Other financial assets | 127,179 | 127,179 | 89,482 | 89,482 |
| **FINANCIAL ASSETS TOTAL** | **9,411,186** | **9,796,826** | **8,422,025** | **8,842,604** |
| | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 766,977 | 754,573 | 738,054 | 737,235 |
| Deposits from customers | 7,895,735 | 7,895,211 | 6,573,550 | 6,574,041 |
| Repo receivables | 109,612 | 111,548 | 462,621 | 464,901 |
| Leasing liabilities | 14,106 | 14,105 | 13,660 | 13,660 |
| Liabilities from issued securities | 28,435 | 31,588 | 43,284 | 49,282 |
| Derivative financial liabilities designated as hedging accounting | 3,104 | 3,104 | 10,023 | 10,023 |
| Financial liabilities at fair value through profit or loss | 25,902 | 25,902 | 28,861 | 28,861 |
| Financial liabilities from OTP-MOL transaction | 99,987 | 99,987 | 83,088 | 83,088 |
| Subordinated bonds and loans | 304,243 | 295,218 | 279,394 | 276,838 |
| Other financial liabilities | 167,540 | 167,540 | 191,091 | 191,091 |
| **FINANCIAL LIABILITIES TOTAL** | **9,415,641** | **9,398,776** | **8,423,626** | **8,429,020** |

### b) Derivative financial instruments

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e,g, change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e,g, caused by interest rate risk components in the fair value of the hedging instrument).

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***b) Derivative financial instruments [continued]***

**Fair value of derivative financial instruments**

The Bank has the following held for trading derivatives and derivatives designated as hedge accounting:

| | 2020 | | | | | 2019 | |
|---|---|---|---|---|---|---|---|
| | Before netting | | Netting[1] | After netting | | | |
| | Assets | Liabilities | | Assets | Liabilities | Assets | Liabilities |
| **Held for trading derivative financial instruments** | | | | | | | |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 30,216 | (28,474) | 8,984 | 21,232 | (19,490) | 29,008 | (26,622) |
| Cross currency interest rate swaps | 7,315 | (7,285) | - | 7,315 | (7,285) | 1,141 | (1,037) |
| OTC options | 356 | (356) | - | 356 | (356) | 298 | (298) |
| Forward rate agreement | - | - | - | - | - | 13 | (32) |
| **Total interest rate derivatives (OTC derivatives)** | **37,887** | **(36,115)** | **8,984** | **28,903** | **(27,131)** | **30,460** | **(27,989)** |
| *From this: Interest rate derivatives cleared by NBH* | *5* | *(72)* | - | *5* | *(72)* | - | *(61)* |
| | | | | | | | |
| **Foreign exchange derivatives** | | | | | | | |
| Foreign exchange swaps | 39,644 | (30,374) | - | 39,644 | (30,374) | 31,666 | (24,607) |
| Foreign exchange forward | 6,990 | (9,869) | - | 6,990 | (9,869) | 2,538 | (4,839) |
| OTC options | 3,909 | (3,836) | - | 3,909 | (3,836) | 3,126 | (3,129) |
| Foreign exchange spot conversion | 619 | (704) | - | 619 | (704) | 18 | (50) |
| **Total foreign exchange derivatives (OTC derivatives)** | **51,162** | **(44,783)** | **-** | **51,162** | **(44,783)** | **37,348** | **(32,625)** |
| *From this: Foreign exchange derivatives cleared by NBH* | *5,211* | *(1,852)* | - | *5,211* | *(1,852)* | *4,166* | *(259)* |

[1] Certain derivative financial assets and liabilities are offset and the net amount is presented in accordance with IAS 32 in the Statement of Financial Position. The Bank has the ability and the intention to settle those instruments on a net basis, which are settled through the same clearing house.

## NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

### b) *Derivative financial instruments [continued]*

**Fair value of derivative financial instruments [continued]**

| | 2020 | | | | | 2019 | |
|---|---|---|---|---|---|---|---|
| | Before netting | | Netting[1] | After netting | | | |
| | Assets | Liabilities | | Assets | Liabilities | Assets | Liabilities |
| **Equity stock and index derivatives** | | | | | | | |
| Commodity Swaps | 13,999 | (12,901) | - | 13,999 | (12,901) | 1,213 | (960) |
| Equity swaps | 7,071 | (560) | - | 7,071 | (560) | 4,530 | (558) |
| **OTC derivatives** | **21,070** | **(13,461)** | **-** | **21,070** | **(13,461)** | **5,743** | **(1,518)** |
| Exchange traded futures and options | 379 | (1,262) | - | 379 | (1,262) | 5 | (248) |
| **Total equity stock and index derivatives** | **21,449** | **(14,723)** | **-** | **21,449** | **(14,723)** | **5,748** | **(1,766)** |
| **Derivatives held for risk management not designated in hedges** | | | | | | | |
| Interest rate swaps | 25,760 | (22,058) | 12,736 | 13,024 | (9,322) | 23,508 | (16,219) |
| Foreign exchange swaps | 2,208 | (3,953) | - | 2,208 | (3,953) | 6,547 | (4,477) |
| Forward | 28 | (75) | - | 28 | (75) | 8 | (12) |
| Cross currency interest rate swaps | 44 | - | - | 44 | - | 75 | - |
| **Total derivatives held for risk management not designated in hedges** | **28,040** | **(26,086)** | **12,736** | **15,304** | **(13,350)** | **30,138** | **(20,708)** |
| *From this: Total derivatives cleared by NBH held for risk management* | *759* | *(6,269)* | - | *759* | *(6,269)* | *1,305* | *(6,689)* |
| **Total Held for trading derivative financial instruments** | **138,538** | **(121,707)** | **21,720** | **116,818** | **(99,987)** | **103,694** | **(83,088)** |
| | | | | | | | |
| **Derivative financial instruments designated as hedge accounting relationships** | | | | | | | |
| **Derivatives designated in cash flow hedges** | | | | | | | |
| Interest rate swaps | 8,027 | - | 8,027 | - | 8,027 | 9,214 | - |
| **Total derivatives designated in cash flow hedges** | **8,027** | **-** | **8,027** | **-** | **8,027** | **9,214** | **-** |
| **Derivatives designated in fair value hedges** | | | | | | | |
| Interest rate swaps | 2,432 | (7,061) | 1,795 | 637 | (5,266) | 3,758 | (8,265) |
| Cross currency interest rate swaps | 6,180 | (5,865) | - | 6,180 | (5,865) | 3,705 | (1,758) |
| **Total derivatives designated in fair value hedges** | **8,612** | **(12,926)** | **1,795** | **6,817** | **(11,131)** | **7,463** | **(10,023)** |
| *From this: Total derivatives cleared by NBH held for hedging* | - | *(1,691)* | - | - | *(1,691)* | - | *(2,886)* |
| **Total derivatives held for risk management (OTC derivatives)** | **16,639** | **(12,926)** | **9,822** | **6,817** | **(3,104)** | **16,677** | **(10,023)** |
| | | | | | | | |
| **Total** | **155,177** | **(134,633)** | **31,542** | **123,635** | **(103,091)** | **120,371** | **(93,111)** |

[1] Certain derivative financial assets and liabilities are offset and the net amount is presented in accordance with IAS 32 in the Statement of Financial Position. The Bank has the ability and the intention to settle those instruments on a net basis, which are settled through the same clearing house.

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting***

Interest rate risk management is centralized at OTP Group. Interest rate risk exposures in major currencies are managed at HQ on consolidated level. Although risk exposures in local currencies are managed at subsidiary level, the respective decisions are subject to HQ approval. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR, EURIBOR, LIBOR, etc.) of the respective currency.

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting [continued]***

**Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2020**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | - | 60,000 | (89,622) | 173,810 | **144,188** |
| | | **Average Interest Rate (%)** | - | - | 1.31% | 1.06% | 1.35% | |
| | | **EUR** | | | | | | |
| | | **Notional** | 15 | - | 5 | 102 | 10 | **132** |
| | | **Average Interest Rate (%)** | (0.11%) | - | 0.09% | 0.24% | 0.22% | |
| | | **USD** | | | | | | |
| | | **Notional** | - | - | 21 | 171 | 29 | **221** |
| | | **Average Interest Rate (%)** | - | - | 2.00% | 2.38% | 2.35% | |
| | | **RUB** | | | | | | |
| | | **Notional** | - | - | - | 2,100 | - | **2,100** |
| | | **Average Interest Rate (%)** | - | - | - | 7.38% | - | |
| **Fair Value Hedge** | **FX & IR risk** | **Cross currency interest rate swap** | | | | | | |
| | | **EUR/HUF** | | | | | | |
| | | **Notional** | - | - | 2 | 12 | 14 | **28** |
| | | **Average Interest Rate (%)** | (1.55%) | (1.59%) | (1.60%) | (1.63%) | (1.67%) | |
| | | **Average FX Rate** | 311.08 | 310.95 | 310.82 | 310.14 | 308.15 | |
| **Fair Value Hedge** | **FX risk** | **Cross currency interest rate swap** | | | | | | |
| | | **EUR/HUF** | | | | | | |
| | | **Notional** | 1 | 92 | 123 | 613 | - | **829** |
| | | **Average FX Rate** | 360.19 | 354.92 | 360.47 | 356.03 | - | |
| | | **RON/HUF** | | | | | | |
| | | **Notional** | - | - | - | 1,550 | - | **1,550** |
| | | **Average FX Rate** | - | - | - | 72.60 | - | |
| | | **RUB/HUF** | | | | | | |
| | | **Notional** | - | - | - | 4,100 | - | **4,100** |
| | | **Average FX Rate** | - | - | - | 4.46 | - | |
| **Fair Value Hedge** | **Other** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | (183) | 6,940 | 8,342 | - | **15,099** |
| **Cash flow hegdes** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | - | - | 12,194 | 28,027 | **40,221** |
| | | **Average FX Rate** | - | - | - | 1.77 | 2.46 | |

**NOTE 44:** **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting [continued]***

**Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2019**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | - | 229,600 | 65,268 | 145,510 | **440,378** |
| | | **Average Interest Rate (%)** | - | - | 1.84% | 1.29% | 1.26% | |
| | | **EUR** | | | | | | |
| | | **Notional** | - | 20 | - | 177 | 27 | **224** |
| | | **Average Interest Rate (%)** | - | 3.88% | - | 0.14% | 0.61% | |
| | | **USD** | | | | | | |
| | | **Notional** | - | - | 8 | 437 | 29 | **474** |
| | | **Average Interest Rate (%)** | - | - | 2.64% | 1.92% | 2.35% | |
| | | **RUB** | | | | | | |
| | | **Notional** | - | - | - | 2,100 | - | **2,100** |
| | | **Average Interest Rate (%)** | - | - | - | 7.38% | - | |
| **Fair Value Hedge** | **FX & IR risk** | **Cross currency interest rate swap** | | | | | | |
| | | **EUR/HUF** | | | | | | |
| | | **Notional** | - | - | 2 | 15 | 14 | **31** |
| | | **Average Interest Rate (%)** | - | - | (1.60%) | (1.63%) | (1.66%) | |
| | | **Average FX Rate** | - | - | 310.37 | 309.79 | 308.69 | |
| **Fair Value Hedge** | **FX risk** | **Cross currency interest rate swap** | | | | | | |
| | | **RON/HUF** | | | | | | |
| | | **Notional** | - | - | 150 | 1,050 | - | **1,200** |
| | | **Average FX Rate** | - | - | 67.50 | 68.83 | - | |
| | | **RUB/HUF** | | | | | | |
| | | **Notional** | - | - | 2,000 | 9,100 | - | **11,100** |
| | | **Average FX Rate** | - | - | 4.20 | 4.33 | - | |
| **Fair Value Hedge** | **Other** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | (310) | 13,644 | 15,763 | - | **29,097** |
| **Cash flow hegdes** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | **HUF** | | | | | | |
| | | **Notional** | - | - | - | 12,194 | 28,027 | **40,221** |
| | | **Average FX Rate** | - | - | - | 1.77 | 2.46 | |

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting [continued]***

**Derivative financial instruments designated as hedge accounting as follows:**

| Type of instrument | Type of risk | Nominal amount of the hedging instrument | Carrying amount of the hedging instrument for the year ended 31 December 2020 | | | | | Line item in the statement of financial position where the hedging instrument is located | Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Before netting | | Netting | After netting | | | |
| | | | Assets | Liabilities | | Assets | Liabilities | | |
| **Fair value hedge** | | | | | | | | | |
| Interest rate swap | Interest rate risk | 468,574 | 1,900 | (7,062) | 1,795 | 105 | (5,267) | Derivative assets (liabilities) held for risk management | (370) |
| Cross-currency swap | FX & IR risk | 8,874 | - | (1,408) | - | - | (1,408) | Derivative assets (liabilities) held for risk management | (36) |
| Cross-currency swap | FX risk | 438,401 | 6,182 | (4,456) | - | 6,182 | (4,456) | Derivative assets (liabilities) held for risk management | (809) |
| Interest rate swap | Other | 16,224 | 530 | - | - | 530 | - | Derivative assets (liabilities) held for risk management | 2 |
| **Cash flow hedge** | | | | | | | | | - |
| Interest rate swap | Interest rate risk | 133,379 | 8,027 | - | 8,027 | - | 8,027 | Derivative assets (liabilities) held for risk management | (85) |

| 31 December 2020 | Type of risk | Carrying amount of the hedged item | | Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item | | Line item in the statement of financial position in which the hedged item is included |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Assets | Liabilities | |
| **Fair value hedges** | | | | | | |
| - Loans | ***Interest rate risk*** | 35,256 | (100,299) | 507 | (151) | Loans |
| - Goverment bonds | ***Interest rate risk*** | 177,888 | - | 884 | - | Securities at amortised cost |
| - Goverment bonds | ***Interest rate risk*** | 91,950 | - | 1,154 | - | Securities at fair value through other comprehensive income |
| - Goverment bonds | ***Interest rate risk*** | - | - | - | - | Financial assets at fair value through profit or loss |
| - Other securities | ***Interest rate risk*** | 47,560 | - | 793 | - | Securities at fair value through other comprehensive income |
| - Loans | ***FX & IR risk*** | 10,378 | - | 9 | - | Loans |
| - Loans | ***FX risk*** | 303,572 | - | 10,855 | - | Loans |
| - Other securities | ***Other risk*** | - | (15,032) | - | (3,144) | Liabilities from issued securities |
| **Fair value hedges total** | | **666,604** | **(115,331)** | **14,202** | **(3,295)** | |
| **Cash flow hedges** | | | | | | |
| - Loans | ***Interest rate risk*** | 40,221 | - | 58 | - | Loans |

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting [continued]***

**Derivative financial instruments designated as hedge accounting as follows:**

| | Type of instrument | Type of risk | Nominal amount of the hedging instrument | Carrying amount of the hedging instrument for the year ended 31 December 2019 | | Line item in the statement of financial position where the hedging instrument is located | Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019 |
|---|---|---|---|---|---|---|---|
| | | | | Assets | Liabilities | | |
| **Fair value hedge** | | | | | | | |
| | Interest rate swap | Interest rate risk | 663,949 | 2,251 | (8,265) | Derivative assets (liabilities) held for risk management | 341 |
| | Cross-currency swap | FX & IR risk | 9,523 | - | (376) | Derivative assets (liabilities) held for risk management | (113) |
| | Cross-currency swap | FX risk | 137,390 | 3,705 | (1,382) | Derivative assets (liabilities) held for risk management | (271) |
| | Interest rate swap | Other | 30,983 | 1,507 | - | Derivative assets (liabilities) held for risk management | 7 |
| **Cash flow hedge** | | | | | | | |
| | Interest rate swap | Interest rate risk | 133,379 | 9,214 | - | Derivative assets (liabilities) held for risk management | (98) |

| | Type of risk | Carrying amount of the hedged item for the year ended 31 December 2019 | | Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2019 | | Line item in the statement of financial position in which the hedged item is included |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Assets | Liabilities | |
| **Fair value hedges** | | | | | | |
| - Loans | ***Interest rate risk*** | 36,709 | - | 521 | | - Loans |
| - Government bonds | ***Interest rate risk*** | 578,026 | - | 109 | | - Securities at amortised cost |
| - Government bonds | ***Interest rate risk*** | 144,234 | - | 1,074 | | - Securities at fair value through other comprehensive income |
| - Government bonds | ***Interest rate risk*** | - | - | - | | - Financial assets at fair value through profit or loss |
| - Other securities | ***Interest rate risk*** | 85,231 | - | 166 | | - Securities at fair value through other comprehensive income |
| - Loans | ***FX & IR risk*** | 10,076 | - | 2 | | - Loans |
| - Loans | ***FX risk*** | 136,088 | - | 1,465 | | - Loans |
| - Other securities | ***Other risk*** | - | (29,018) | - | (5,765) | Liabilities from issued securities |
| **Fair value hedges total** | | **990,364** | **(29,018)** | **3,337** | **(5,765)** | |
| **Cash flow hedges** | | | | | | |
| - Loans | ***Interest rate risk*** | 40,221 | - | 32 | | - Loans |

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***c) Hedge accounting [continued]***

**31 December 2020**

| Type of instrument | Type of risk | Change in the value of the hedging instrument recognised in cash flow hedge reserve | Hedge ineffectiveness recognised in profit or loss | Line item in profit or loss that includes hedge ineffectiveness |
|---|---|---|---|---|
| Interest rate swap | Interest rate risk | 296 | (85) | Interest Income from Placements with other banks, net of allowance for placement losses |

**31 December 2019**

| Type of instrument | Type of risk | Change in the value of the hedging instrument recognised in cash flow hedge reserve | Hedge ineffectiveness recognised in profit or loss | Line item in profit or loss that includes hedge ineffectiveness |
|---|---|---|---|---|
| Interest rate swap | Interest rate risk | 2,086 | (98) | Interest Income from Placements with other banks, net of allowance for placement losses |

***d) Fair value classes***

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| As at 31 December 2020 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Loans at fair value through other comprehensive income | 480,937 | - | - | 480,937 |
| Financial assets at fair value through profit or loss | 160,483 | 34,643 | 123,064 | 2,776 |
| *from this: securities held for trading* | *11,729* | *10,453* | *1,276* | - |
| *from this: positive FVA of derivative financial instruments designated as held for trading* | *116,818* | *378* | *116,440* | - |
| *from this: securities mandatorily measured at fair value through profit or loss* | *31,936* | *23,812* | *5,348* | *2,776* |
| Securities at fair value through other comprehensive income | 911,950 | 426,566 | 485,384 | - |
| Positive fair value of derivative financial instruments designated as hedge accounting | 6,817 | - | 6,817 | - |
| **Financial assets measured at fair value total** | **1,560,187** | **461,209** | **615,265** | **483,713** |
| Financial liabilities at fair value through profit or loss | 25,902 | - | - | 25,902 |
| Negative fair value of derivative financial instruments classified as held for trading | 99,987 | 1,263 | 98,724 | - |
| Short position | 9,131 | 9,131 | - | - |
| Negative fair value of derivative financial instruments designated as hedge accounting | 3,104 | - | 3,104 | - |
| **Financial liabilities measured at fair value total** | **138,124** | **10,394** | **101,828** | **25,902** |

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***d) Fair value classes [continued]***

| As at 31 December 2019 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Loans at fair value through other comprehensive income | 238,538 | - | - | 238,538 |
| Financial assets at fair value through profit or loss | 172,229 | 52,247 | 119,982 | - |
| *from this: securities held for trading* | *46,255* | *29,961* | *16,294* | - |
| *from this: positive FVA of derivative financial instruments designated as held for trading* | *103,694* | *6* | *103,688* | - |
| *from this: securities mandatorily measured at fair value through profit or loss* | *22,280* | *22,280* | - | - |
| Securities at fair value through other comprehensive income | 1,485,977 | 1,082,071 | 399,171 | 4,735 |
| Positive fair value of derivative financial instruments designated as hedge accounting | 16,677 | - | 16,677 | - |
| **Financial assets measured at fair value total** | **1,704,614** | **1,134,318** | **535,830** | **34,466** |
| Financial liabilities at fair value through profit or loss | 28,861 | - | - | 28,861 |
| Negative fair value of derivative financial instruments classified as held for trading | 83,088 | 249 | 82,839 | - |
| Short position | 7,040 | 7,040 | - | - |
| Negative fair value of derivative financial instruments designated as hedge accounting | 10,023 | - | 10,023 | - |
| **Financial liabilities measured at fair value total** | **129,012** | **7,289** | **92,862** | **28,861** |

**Valuation techniques and sensitivity analysis on Level 3 instruments**

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical date and the impact of using alternative models.
The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

**Unobservable inputs used in measuring fair value**

| Type of financial instrument | Valuation technique | Significant unobservable input | Range of estimates for unobservable input |
|---|---|---|---|
| VISA C shares | Market approach combined with expert judgement | Discount applied due to illiquidity and litigation | +/-12% |
| Loans mandatory measured at fair value through profit and loss | Discounted cash flow model | Probability of default | +/- 20% |

**NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

***d) Fair value classes [continued]***

**The effect of unobservable inputs on fair value measurement**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

| as at 31 December 2020 | Fair values | | Effect on profit and loss | |
|---|---|---|---|---|
| | Favourable | Unfavourable | Favourable | Unfavourable |
| VISA C shares | 1,514 | 1,154 | 180 | (180) |
| Loans mandatory measured at fair value through profit and loss | 28,656 | 28,430 | 113 | (113) |
| **Total:** | **30,170** | **29,584** | **293** | **(293)** |

| as at 31 December 2019 | Fair values | | Effect on profit and loss | |
|---|---|---|---|---|
| | Favourable | Unfavourable | Favourable | Unfavourable |
| VISA C shares | 2,609 | 1,983 | 313 | (313) |
| Loans mandatory measured at fair value through profit and loss | 29,951 | 29,511 | 220 | (220) |
| **Total** | **32,560** | **31,494** | **533** | **(533)** |

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of Visa C shares have been calculated by modifying the discount rate used for the valuation by +/-12% as being the best estimates of the management as at 31 December 2020 and 31 December 2019 respectively.

In the case of loans mandatory measured at fair value through profit and loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as the most significant unobservable input.

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2020**

| | Opening balance | Issuance/ Disbursement | FVA | Reclassification | Settlement | Closing balance |
|---|---|---|---|---|---|---|
| Loans at fair value through other comprehensive income | 238,538 | 257,055 | (2,555) | - | (12,101) | 480,937 |
| Securities mandatorily measured at fair value through profit or loss | - | - | 523 | 5,188 | (2,935) | 2,776 |
| Securities at fair value through other comprehensive income | 4,735 | - | 453 | (5,188) | - | - |
| Financial liabilities at fair value through profit or loss | (28,861) | - | 1,270 | - | 1,689 | (25,902) |
| **Total** | **214,412** | **257,055** | **(309)** | **-** | **(13,347)** | **457,811** |

## NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

### d) *Fair value classes [continued]*

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2019**

| | Opening balance | Issuance/ Disbursement | FVA | Settlement | Closing balance |
|---|---|---|---|---|---|
| Loans at fair value through other comprehensive income | 42,037 | 208,952 | (6,198) | (6,253) | 238,538 |
| Securities at fair value through other comprehensive income | 3,146 | - | 1,589 | - | 4,735 |
| Financial liabilities at fair value through profit or loss | (32,231) | - | 21 | 3,349 | (28,861) |
| **Total** | **12,952** | **208,952** | **(4,588)** | **(2,904)** | **214,412** |

## NOTE 45: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2020

### 1) Sale of the Slovakian subsidiary

See details about the event above in Note 11.

## NOTE 46: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Compliance with the executive circular issued in January 2021 by the National Bank of Hungary on the "*use of macroeconomic information in applying IFRS 9 and factors indicating a significant increase in credit risk*" does not significantly impact the determination of expected credit losses as at 31 December 2020.

# PROPOSAL FOR THE USE OF AFTER-TAX PROFIT OF THE PARENT COMPANY

***A* PART OF THE PROPOSAL OF RESOLUTION**

*The Board of Directors acting in the competency of the Annual General Meeting, determines the statement of financial position for the year ended 2020 with total assets of HUF 11,154,394 million and with net profit for the period of HUF 92,474 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 9,247 million, and the remaining amount must be set to the retained earnings.*

*(The text above is part of the proposal of resolution)*

# FINANCIAL STATEMENTS ON 2020

## IFRS (CONSOLIDATED)

# OTP BANK PLC.
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2020
## (in HUF mn)

| | Note | 2020 | 2019 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 5. | 2,432,312 | 1,784,378 |
| Placements with other banks, net of loss allowance for placements | 6. | 1,148,743 | 342,922 |
| Repo receivables | 7. | 190,849 | 67,157 |
| Financial assets at fair value through profit or loss | 8. | 234,007 | 251,990 |
| Securities at fair value through other comprehensive income | 9. | 2,136,709 | 2,426,779 |
| Securities at amortized cost | 10. | 2,624,920 | 1,968,072 |
| Loans at amortized cost and mandatorily at fair value through profit or loss | 11. | 12,477,447 | 10,909,799 |
| Finance lease receivables | 35. | 1,051,140 | 969,263 |
| Associates and other investments | 12. | 52,443 | 20,822 |
| Property and equipment | 13. | 322,766 | 320,430 |
| Intangible assets and goodwill | 13. | 239,004 | 242,219 |
| Right-of-use assets | 35. | 46,283 | 52,950 |
| Investment properties | 14. | 38,601 | 41,560 |
| Derivative financial assets designated as hedge accounting | 15. | 6,820 | 7,463 |
| Deferred tax assets | 34. | 22,317 | 26,543 |
| Current income tax receivables | | 38,936 | 12,769 |
| Other assets | 16. | 266,474 | 214,580 |
| Assets classified as held for sale / discontinued operations | 49. | 6,070 | 462,071 |
| **TOTAL ASSETS** | | **23,335,841** | **20,121,767** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 17. | 1,185,315 | 812,911 |
| Repo liabilities | 18. | 117,991 | 488 |
| Financial liabilities designated at fair value through profit or loss | 19. | 34,131 | 30,862 |
| Deposits from customers | 20. | 17,890,863 | 15,171,308 |
| Liabilities from issued securities | 21. | 464,213 | 393,167 |
| Derivative financial liabilities held for trading | 22. | 104,823 | 86,743 |
| Derivative financial liabilities designated as hedge accounting | 23. | 11,341 | 10,709 |
| Leasing liabilities | 35. | 48,451 | 54,194 |
| Deferred tax liabilities | 34. | 25,990 | 29,195 |
| Current income tax payable | | 27,684 | 35,928 |
| Other liabilities | 24. | 607,737 | 592,540 |
| Subordinated bonds and loans | 25. | 274,704 | 249,938 |
| Liabilities directly associated with assets classified as held for sale / discontinued operations | 49. | 5,486 | 362,496 |
| **TOTAL LIABILITIES** | | **20,798,729** | **17,830,479** |
| Share capital | 26. | 28,000 | 28,000 |
| Retained earnings and reserves | 27. | 2,629,076 | 2,319,263 |
| Treasury shares | 28. | (124,080) | (60,931) |
| Non-controlling interest | 29. | 4,116 | 4,956 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **2,537,112** | **2,291,288** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **23,335,841** | **20,121,767** |

Budapest, 17 March 2021

OTP BANK Nyrt. 1. elnök-vezérigazgató

Dr. Sándor Csányi
Chairman and Chief Executive Officer

# OTP BANK PLC.
# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
# FOR THE YEAR ENDED 31 DECEMBER 2020
# (in HUF mn)

| | Note | 2020 | 2019 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Interest income calculated using the effective interest method | 30. | 841,901 | 762,639 |
| Income similar to interest income | 30. | 135,986 | 133,497 |
| **Interest income and income similar to interest income** | | **977,887** | **896,136** |
| **Interest expense** | | **(195,216)** | **(197,095)** |
| **NET INTEREST INCOME** | | **782,671** | **699,041** |
| Loss allowance on loans, placements and on repo receivables | 31. | (200,315) | (44,605) |
| from this: gain / (loss) from derecognition of impaired financial assets | | 1,978 | (15,137) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | | (3,262) | (4,376) |
| (Loss allowance) / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost | 31. | (7,309) | 9 |
| Provision for commitments and guarantees given | 31. | (8,662) | (7,995) |
| Release of impairment of assets subject to operating lease and of investment properties | 31. | 878 | 280 |
| **Risk cost total** | | **(218,670)** | **(56,687)** |
| **NET INTEREST INCOME AFTER RISK COST** | | **564,001** | **642,354** |
| Income from fees and commissions | 32. | 486,529 | 447,084 |
| Expense from fees and commissions | 32. | (88,896) | (72,903) |
| **Net profit from fees and commissions** | | **397,633** | **374,181** |
| Foreign exchange gains, net | | 19,204 | 6,782 |
| Gains on securities, net | | 16,106 | 11,611 |
| from this: gain from derecognition of securities at amortized cost | | 1,402 | 714 |
| Loss on financial assets /liabilities measured at fair value through profit or loss | | (2,396) | (849) |
| Dividend income | | 527 | 7,955 |
| Other operating income | 33. | 33,461 | 111,093 |
| Other operating expense | 33. | (39,447) | (44,758) |
| **Net operating income** | | **27,455** | **91,834** |
| Personnel expenses | 33. | (308,642) | (276,754) |
| Depreciation and amortization | 13. | (92,761) | (77,048) |
| Goodwill impairment | 13. | - | (4,887) |
| Other general expenses | 33. | (306,264) | (282,528) |
| **Other administrative expenses** | | **(707,667)** | **(641,217)** |
| **PROFIT BEFORE INCOME TAX** | | **281,422** | **467,152** |
| Income tax expense | 34. | (27,376) | (49,902) |
| **NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **254,046** | **417,250** |
| From this, attributable to: | | | |
| Non-controlling interest | | **220** | **341** |
| Owners of the company | | **253,826** | **416,909** |
| **DISCONTINUED OPERATIONS** | | | |
| **Gains from disposal of subsidiary classified as held for sale** | 49. | **199** | **-** |
| **Gains / (Loss) from discontinued operations** | 49. | **5,391** | **(4,668)** |
| **PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION** | | **259,636** | **412,582** |
| **Earnings per share (in HUF)** | | | |
| **From continuing operations** | | | |
| **Basic** | 45. | **982** | **1,594** |
| **Diluted** | 45. | **982** | **1,593** |
| **From continuing and discontinued operations** | | | |
| **Basic** | 45. | **1,004** | **1,576** |
| **Diluted** | 45. | **1,003** | **1,575** |

**OTP BANK PLC.**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2020**
**(in HUF mn)**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **259,636** | **412,582** |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Fair value adjustment of securities at fair value through other comprehensive income | | (3,175) | 26,164 |
| Deferred tax related to fair value adjustment of securities at fair value through other comprehensive income | | 918 | (2,915) |
| Derivative financial instruments designated as cash flow hedge | | (2) | 11 |
| Net investment hedge in foreign operations | | (9,440) | (2,776) |
| Deferred tax related to net investment hedge in foreign operations | 27. | 849 | 250 |
| Foreign currency translation difference | | 68,593 | 79,440 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Fair value changes of equity instruments at fair value through other comprehensive income | | (2,890) | 7,619 |
| Deferred tax related to equity instruments at fair value through other comprehensive income | 27. | 383 | (644) |
| Remeasurement of net defined benefit asset / (liability) | | 143 | (173) |
| Deferred tax related to remeasurement of net defined benefit asset / (liability) | 27. | 1 | 12 |
| **Subtotal** | | **55,380** | **106,988** |
| **NET COMPREHENSIVE INCOME** | | **315,016** | **519,570** |
| **From this, attributable to:** | | | |
| Non-controlling interest | | (223) | 768 |
| Owners of the company | | 315,239 | 518,802 |

# OTP BANK PLC.
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2020
## (in HUF mn)

| | Note | Share capital | Capital reserve | Retained earnings and other reserves[50] | Treasury shares | Total attributable to shareholders' | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | | **28,000** | **52** | **1,864,152** | **(67,999)** | **1,824,205** | **2,452** | **1,826,657** |
| Net profit for the year | | - | - | 412,241 | - | 412,241 | 341 | 412,582 |
| Other Comprehensive Income | | - | - | 106,561 | - | 106,561 | 427 | 106,988 |
| **Total comprehensive income** | | **-** | **-** | **518,802** | **-** | **518,802** | **768** | **519,570** |
| Increase due to business combinations | | - | - | - | - | - | 1,736 | 1,736 |
| Share-based payment | 39. | - | - | 3,547 | - | 3,547 | - | 3,547 |
| Dividend for the year 2018 | | - | - | (61,320) | - | (61,320) | - | (61,320) |
| Correction due to MRP[51] | | - | - | 376 | - | 376 | - | 376 |
| Sale of Treasury shares | 28. | - | - | - | 15,956 | 15,956 | - | 15,956 |
| Treasury shares – loss on sale | 28. | - | - | (5,012) | - | (5,012) | - | (5,012) |
| Treasury shares – acquisition | 28. | - | - | - | (8,888) | (8,888) | - | (8,888) |
| Payments to ICES holders | 27. | - | - | (1,334) | - | (1,334) | - | (1,334) |
| **Balance as at 31 December 2019** | | **28,000** | **52** | **2,319,211** | **(60,931)** | **2,286,332** | **4,956** | **2,291,288** |
| | | | | | | | | |
| **Balance as at 1 January 2020** | | **28,000** | **52** | **2,319,211** | **(60,931)** | **2,286,332** | **4,956** | **2,291,288** |
| Net profit for the year | | - | - | 259,416 | - | 259,416 | 220 | 259,636 |
| Other Comprehensive Income | | - | - | 55,823 | - | 55,823 | (443) | 55,380 |
| **Total comprehensive income** | | **-** | **-** | **315,239** | **-** | **315,239** | **(223)** | **315,016** |
| Purchasing of non-controlling interest | | - | - | - | - | - | (382) | (382) |
| Decrease due to discontinued operation | 49. | - | - | - | - | - | (235) | (235) |
| Share-based payment | 39. | - | - | 3,394 | - | 3,394 | - | 3,394 |
| Sale of Treasury shares | 28. | - | - | - | 22,773 | 22,773 | - | 22,773 |
| Treasury shares - loss on sale | 28. | - | - | (3,967) | - | (3,967) | - | (3,967) |
| Treasury shares - acquisition | 28. | - | - | - | (85,922) | (85,922) | - | (85,922) |
| Payments to ICES holders | 27. | - | - | (4,853) | - | (4,853) | - | (4,853) |
| **Balance as at 31 December 2020** | | **28,000** | **52** | **2,629,024** | **(124,080)** | **2,532,996** | **4,116** | **2,537,112** |

[50] See details in Note 27, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve.
[51] Based on MRP's Articles of Association, dividend on members' shares paid back to the Founder i.e. OTP Bank.

# OTP BANK PLC.
# CONSOLIDATED STATEMENT OF CASH-FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2020
# (in HUF mn)

| OPERATING ACTIVITIES | Note | 2020 | 2019 |
|---|---|---|---|
| **Net profit for the year** | | | |
| **(attributable to the owners of the company)** | | **259,416** | **412,241** |
| Net accrued interest | | (9,040) | (6,590) |
| Dividend income | | (527) | (7,958) |
| Depreciation and amortization | 13. | 98,385 | 78,864 |
| Goodwill impairment | 13. | - | 4,887 |
| Loss allowance / (Release of loss allowance) on securities | 9.,10. | 7,309 | (10) |
| Loss allowance on loans and placements and on repo receivables | 6.,11. | 251,440 | 57,058 |
| (Release of loss allowance) / Loss allowance on investments | 12. | (381) | 3,342 |
| Release of loss allowance on investment properties | 14. | (741) | (123) |
| Impairment on tangible and intangible assets | 13. | 51 | 2,078 |
| Loss allowance on other assets | 16. | 7,416 | 6,258 |
| Provision on off-balance sheet commitments and contingent liabilities | 24. | 14,792 | 3,767 |
| Share-based payment | 3.,39. | 3,394 | 3,547 |
| Unrealized losses on fair value change of securities held for trading | | 762 | 6,975 |
| Unrealized (gains) / losses on fair value change of derivative financial instruments | | (25,068) | 14,232 |
| (Gain) / Loss on discontinued operations | | (5,391) | 6,032 |
| ***Net changes in assets and liabilities in operating activities*** | | | |
| Net decrease / (increase) in financial assets at fair value through profit or loss | 8. | 24,406 | (30,651) |
| Net decrease / (increase) in compulsory reserves at the National Banks | 5. | 17,839 | (48,081) |
| Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value | 11. | (1,534,658) | (1,402,625) |
| Net (increase) / decrease in other assets before loss allowance | 16. | (88,225) | 7,037 |
| Net increase in deposits from customers | 20. | 2,374,251 | 1,476,678 |
| Cash payments for the interest portion of the lease liability | 35. | (1,592) | (1,604) |
| Net increase in other liabilities | 24. | 60,723 | 169,290 |
| Income tax paid | 34. | (37,729) | (30,170) |
| **Net Cash Provided by Operating Activities** | | **1,416,832** | **724,474** |

# OTP BANK PLC.
# CONSOLIDATED STATEMENT OF CASH-FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2020
# (in HUF mn)
# [continued]

| | Note | 2020 | 2019 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| (Increase) / Decrease in placement with other banks, before loss allowance for placements | 6. | (929,815) | 203,483 |
| Purchase of securities at fair value through other comprehensive income | 9. | (1,864,934) | (2,392,184) |
| Proceeds from sale of securities at fair value through other comprehensive income | 9. | 2,147,495 | 2,258,296 |
| Net increase in investments | 12. | (31,112) | (3,908) |
| Dividends received | | 399 | 6,096 |
| Purchase of securities at amortized cost | 10. | (6,655,496) | (4,749,976) |
| Redemption of securities at amortized cost | 10. | 6,020,315 | 4,600,424 |
| Purchase of property, equipment and intangible assets | 13. | (136,130) | (267,652) |
| Proceeds from disposals of property, equipment and intangible assets | 13. | 67,988 | 31,612 |
| Net increase in investment properties before loss allowance | 14. | (1,924) | (3,022) |
| Net change in cash and cash equivalents from discontinued operation | 49. | 5,544 | - |
| Net cash paid for acquisition | 41. | - | (38,410) |
| **Net Cash Used in Investing Activities** | | **(1,377,670)** | **(355,241)** |
| **FINANCING ACTIVITIES** | | | |
| Net increase / (decrease) in amounts due to banks, the National Governments, deposits from the National Banks and other banks and repo liabilities | 17. | 488,795 | (239,947) |
| Net increase / (decrease) in financial liabilities designated at fair value through profit or loss | 19. | 4,647 | (6,833) |
| Cash received from issuance of securities | 21. | 149,105 | 9,732 |
| Cash used for redemption of issued securities | 21. | (78,487) | (31,969) |
| Cash payments for the principal portion of the lease liability | 35. | (16,856) | (12,440) |
| Increase in subordinated bonds and loans | 25. | 24,766 | 140,387 |
| Payments to ICES holders | 27. | (4,853) | (1,334) |
| Sale of Treasury shares | 28. | 18,806 | 10,943 |
| Purchase of Treasury shares | 28. | (85,922) | (8,888) |
| Dividends paid | 27. | (10) | (61,307) |
| **Net Cash Provided by / (Used in) Financing Activities** | | **499,991** | **(201,656)** |
| **Cash and cash equivalents at the beginning of the year** | **5.** | **1,049,737** | **819,979** |
| Foreign currency translation | | 69,036 | 79,034 |
| Net change in cash and cash equivalent | | 539,153 | 167,577 |
| Adjustment due to discontinued operation | | 16,851 | (16,853) |
| **Cash and cash equivalents at the end of the year** | **5.** | **1,674,777** | **1,049,737** |

**OTP BANK PLC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2020**

## NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

### 1.1. General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company.

The Bank's registered office address is 16, Nador Street, Budapest 1051.

In 1995, the shares of the Bank were introduced on the Budapest and the Luxembourg Stock Exchanges and were also traded on the SEAQ board on the London Stock Exchange and on PORTAL in the USA.

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 17 March 2021.

The structure of the Share capital by shareholders (%):

| | 2020 | 2019 |
|---|---|---|
| Domestic and foreign private and institutional investors | 97% | 99% |
| Employees | 1% | 1% |
| Treasury shares | 2% | - |
| **Total** | **100%** | **100%** |

The Bank's Registered Capital consists of 280.000.010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights to the shareholders.

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,530 branches in the following countries Hungary, Bulgaria, Serbia, Croatia, Russia, Romania, Ukraine, Albania, Montenegro, Moldova and Slovenia, as well as provides other services in the Netherlands, Cyprus and Malta.

The number of the active employees without long-term breaks, and with part-time employees taken into account proportionately, at the Group:

| | 2020 | 2019 |
|---|---|---|
| The number of employees at the Group | 38,626 | 39,971 |
| The average number of employees at the Group | 39,943 | 40,795 |

### 1.2. Basis of Accounting

These Consolidated Financial Statements were prepared based on the assumptions of the Management that the Bank will remain in business for the foreseeable future and that the Bank won't be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

The Entities of the Group maintain their accounting records and prepare their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the commercial, banking and fiscal regulations of the country in which they are domiciled.

The Bank's functional currency is the Hungarian Forint ("HUF"). It is also presentation currency for the Group.
The financial statements of the subsidiaries used during the preparation of Consolidated Financial Statements of the Group have the same reporting period – starting from 1 January ending as at 31 December – like the reporting period of the Group.
Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").
Certain adjustments have been made to the Entities' statutory accounts in order to present the Consolidated Financial Statements of the Group in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").
The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

**NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]**

**1.2. Basis of Accounting [continued]**

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

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

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

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

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

At the date of authorization of these financial statements there are new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU which are not yet effective:

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

The Group does not adopt these new standards and amendments to existing standards before their effective date. The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

**1.2.3. Standards and Interpretations issued by IASB, but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the publication of these consolidated financial statements:

- **IFRS 17 "Insurance Contracts" including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets**" - Annual Improvements (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** – Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023),

**NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]**

**1.2. Basis of Accounting [continued]**

**1.2.3. Standards and Interpretations issued by IASB, but not yet adopted by the EU [continued]**

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group anticipates that the adoption of these new standards, amendments to the existing Standards and new interpretations will have no significant impact on the Consolidated Financial Statements of the Group in the period of initial application.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies applied in the preparation of the accompanying Consolidated Financial Statements are summarized below:

**2.1. Basis of Presentation**

These Consolidated Financial Statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

The presentation of Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

**2.2. Foreign currency translation**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currencies are translated into functional currencies at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP Bank as at the date of the Consolidated Financial Statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7. below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.2. Foreign currency translation [continued]**

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into HUF using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in Other Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in Other Comprehensive Income and accumulated in equity.

**2.3. Principles of consolidation**

As the ultimate parent, OTP Bank is preparing Consolidated Financial Statements of the Group.

These Consolidated Financial Statements combine the assets, liabilities, equity, income, expenses and cash flows of the Bank and of those subsidiaries of the Bank in which the Bank exercises control.
All intra-group transactions are consolidated fully on a line-by-line basis while under equity method other consolidation rules are applied. Determination of the entities which are involved into the consolidation procedures based on the determination of the Group's Control over another entity. The control exists when the Bank has power over the investee, is able to use this power and is exposed or has right to variable returns. Consolidation of a subsidiary should begin from the date when the Group obtains control and cease when the Group loses control. Therefore, income and expenses of a subsidiary should be included in the Consolidated Financial Statements from the date the Group gains control of the subsidiary until the date when the Group ceases to have control of the subsidiary.
The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 42.

**2.4. Accounting for acquisitions**

Business combinations are accounted for using acquisition method. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.
Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets acquired and liabilities assumed is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements. The Group tests goodwill for impairment by comparing its recoverable amount with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount an impairment loss. The recoverable amount of goodwill is the higher of its fair value less costs of disposal and its value in use.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss on Net income from discontinued operation.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.4. Accounting for acquisitions [continued]

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value of identified assets and liabilities assumed on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the present economic growth and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Profit or Loss as other income.

### 2.5. Securities at amortized cost

The Group measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Group initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis. Such securities comprise mainly securities issued by the Hungarian and foreign Governments, corporate bonds and discounted treasury bills.

### 2.6. Financial assets at fair value through profit or loss

#### 2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value, so unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains, consequently realized and unrealized gains and losses are recognized in the net operating income, while interest income is recognized in income similar to interest income. The Group applies the FIFO[1] inventory valuation method for securities held for trading.
Such securities consist of equity instruments, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

#### 2.6.2. Financial assets designated as fair value through profit or loss

The Group may - at initial recognition - irrevocable designate a financial asset as measured at fair value through profit or loss that would otherwise be measured at fair value through other comprehensive income or at amortized cost.
The Group may use fair value designation only in the following cases:

- if the classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (‘accounting mismatch’)

The use of the fair value designation is based only on direct decision of management of the Group.

[1] First In First Out

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6. Financial assets at fair value through profit or loss [continued]**

**2.6.3. Derivative financial instruments**

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Profit or Loss.

***Foreign currency contracts***

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these forward contracts does not represent the actual market or credit risk associated with these contracts.
Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

***Foreign exchange swaps and interest rate swaps***

The Group enters into foreign exchange swap and interest rate swap ("IRS") transactions. The swap transaction is an agreement concerning the swap of certain financial instruments, which usually consists of spot and one or more forward contracts.
IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
IRS transactions are used by the Group for risk management and trading purposes.

***Cross-currency interest rate swaps***

The Group enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6. Financial assets at fair value through profit or loss [continued]**

**2.6.3 Derivative financial instruments [continued]**

***Equity and commodity swaps***

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

***Forward rate agreements (FRA)***

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

***Foreign exchange options***

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

**2.7. Hedge accounting**

**Derivative financial instruments designated as a fair-value hedge**

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.
The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.
The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018.

**Derivative financial instruments designated as cash flow hedge**

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.
The Group terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash-flow hedges – in line with the standard -hedge accounting is still applied by the Group as long as the underlying asset is derecognized.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.7. Hedge accounting [continued]

**Net investment hedge in foreign operations**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, shall be accounted for similarly to cash flow hedges.
On disposal of the foreign operation, the cumulative value of any gains and losses recognized in Other Comprehensive Income is transferred to the Consolidated Statement of Profit or Loss.

### 2.8. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the Consolidated Statement of Financial Position on a net basis. The Group does not offset any financial assets and financial liabilities.

### 2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined or hybrid contracts that includes a host contract and a derivative (the embedded derivative) affecting cash-flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair value or is measured at fair value but changes in fair value are recognized in Other Comprehensive Income.

As long as a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract and no embedded derivative is separated.

Derivatives that are required to be separated are measured at fair value at initial recognition and subsequently.If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the Group shall designate the entire hybrid contract as at fair value through profit or loss. The Group shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract.

### 2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

**Debt instruments**

Investments in debt securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses are reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[1] inventory valuation method for securities at fair value through other comprehensive income.

[1] First In First Out

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Securities at fair value through other comprehensive income [continued]**

**Debt instruments [continued]**

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income.
Securities at fair value through other comprehensive income are remeasured at fair value based on quoted prices or amounts derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.

**Fair value through other comprehensive income option for equity instruments**

The Group has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognized under IFRS 3.
In some cases the Group made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in the consolidated other comprehensive income instead of in profit or loss.
The use of the fair value option is based only on direct decision of management of the Group.

**2.11. Loans, placements with other banks, repo receivables and loss allowance for loan and placements and repo receivable losses**

The Group measures at amortized cost those Loans and placements with other banks and repo receivables, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group recognizes as loans measured at fair value through profit or loss those financial assets, which are held for trading or the contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.
Those Loans and placements with other banks and repo receivables that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively.

Transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation.
Loans and placements with other banks and repo receivables are derecognized when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognized the difference of the carrying amount and the consideration received is recognized in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognized as a modification gain or loss in the profit or loss.

Interest and amortized cost are accounted using effective interest rate method.

Initially financial assets shall be recognized at fair value which is usually equal to transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized. This difference is amortized with effective interest rate.
Initial fair value of loans lent at interest below market conditions is lower than their transaction price. As a consequence the Group is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets.

The Group recognizes a loss allowance for expected credit losses on a financial asset at each reporting date. The loss allowance for a financial asset equals to 12-month expected credit loss or equals to the lifetime expected credit losses. The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Group is exposed to credit risk.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.11. Loans, placements with other banks, repo receivables and loss allowance for loan and placements and repo receivable losses [continued]**

If the credit risk on a financial asset has not increased significantly since initial recognition then 12-month expected credit losses, otherwise (in case of significant credit risk increase) lifetime expected credit losses should be calculated. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loans, placements and on repo receivables / from this: gain / loss from derecognition" in the Consolidated Statement of Profit or Loss.

The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In those cases when on the previously partially or fully written-off loans or placements, which perhaps were derecognized from the books no having been reasonable expectations later nevertheless recoveries could be determined then it will be reversal of loss allowance in the Consolidated Statement of Profit or Loss on "Income from recoveries of written-off, but legally existing loans".

**2.12. Modified assets**

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the consolidated statement of profit or loss.

Among the possible contract amendments, the Group considers as a derecognition and a new recognition when the discounted present value – discounted at the original effective interest rate – of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows. In case of derecognition and new recognition the unamortized fees of the derecognized asset should be presented as Income similar to interest income. The newly recognized financial asset is initially measured at fair value and is placed in stage 1 if the derecognized financial asset was in stage 1 or stage 2 portfolio. The newly recognized financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognized financial asset was in stage 3 portfolio or it was POCI.

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Group recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset's original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

**2.13. Purchased or originated credit impaired financial assets**

Purchased or originated financial assets are credit-impaired on initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

A purchased credit-impaired asset is likely to be acquired at a deep discount. In unusual circumstances, it may be possible that an entity originates a credit-impaired asset, for example, following a substantial modification of a distressed financial asset that resulted in the derecogniton of the original financial asset.

In the case of POCI financial assets, interest income is always recognized by applying the credit-adjusted effective interest rate.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.13. Purchased or originated credit impaired financial assets [continued]**

For POCI financial assets, in subsequent reporting periods an entity is required to recognize:
- the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance,
- the impairment gain or loss which is the amount of any change in lifetime expected credit losses.
  An impairment gain is recognized (with the parallel increase of the net amortized cost of receivable) if due to the favourable changes after initial recognition the lifetime expected credit loss estimation is becoming lower than the original estimated credit losses at initial recognition.

The POCI qualification remains from initial recognition to derecognition in the Group's books.

**2.14. Loss allowance**

Loss allowance for loans and placements with other banks and repo receivables is recognized by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model the recognized loss allowance equals to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) the recognized loss allowance is the lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets loss allowance is recognized in amount of lifetime expected credit loss since initial recognition. Impairment gain in the Consolidated Statement of Profit or Loss is recognized if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

Loss allowance for loans and placements with other banks and repo receivables represent Management assessment for potential losses in relation to these activities.

Impairment losses on credit and placement losses are determined at a level that provides coverage for individually identified credit losses. For loans for which it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence, a collective impairment loss is recognized. With this, the Bank reduces the carrying amount of financial asset portfolios with similar credit risk characteristics to the amount expected to be recovered based on historical experience.

At subsequent measurement the Group recognizes impairment gain or loss through "Impairement gain on POCI loans" in the Consolidated Statement of Profit or Loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9.

If a financial asset, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously was classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then loss allowance is adjusted to the level of 12 month expected credit loss.

**Classification into risk classes**

According to the requirements of the IFRS9 standard Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:
- stage 1 – performing financial instruments without significant increase in credit risk since initial recognition
- stage 2 – performing financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
- stage 3 – non-performing, credit-impaired financial instruments
- POCI – purchased or originated credit impaired

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.14. Loss allowance [continued]**

**Classification into risk classes [continued]**

In the case of trade receivables and contract assets the Group applies the simplified approach and calculates only lifetime expected credit loss. Simplified approach is the following:
- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

Stage 1: financial instruments for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if one or both the following two conditions occur:
- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria of default.

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial instruments shows significant increase in credit risk, and is allocated to stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):
- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

A financial instrument is non-performing and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:
- defaulted (based on the group level default definition),
- classified as non-performing forborne (based on the group level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on group level (including but not limited to):
  - breaching of contracts,
  - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
  - bankruptcy, liquidation, debt settlement processes against debtor,

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.14. Loss allowance [continued]**

**Classification into risk classes [continued]**

- forced strike-off started against debtor,
- termination of loan contract by the bank,
- occurrence of fraud event,
- termination of the active market of the financial instrument.
-

If the exposure is no longer considered as credit impaired, the Group allocates this exposure to Stage 2.

When loss allowance is calculated at exposures categorized into stages the following process is needed by stages:

- stage 1 (performing): loss allowance at an amount equal to 12-month expected credit loss should be recognized,
- stage 2 (significant increase in credit risk): loss allowance at an amount equal to lifetime expected credit loss should be recognized,
- stage 3 (non-performing): loss allowance at an amount equal to lifetime expected credit loss should be recognized.

For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

An entity shall measure expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**2.15. Sale and repurchase agreements, security lending**

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

**2.16. Associates and other investments**

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. Subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IFRS 9.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is adjusted subsequently for:

- the Group's share of the post-acquisition profits or losses of the investee, which are recognized in the Group's profit or loss; and
- the distributions received from the investee, which reduce the carrying amount of the investment.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.16. Associates and other investments [continued]**

The Group's share of the profits or losses of the investee, or other changes in the investee's equity, is determined on the basis of its proportionate ownership interest. The Group recognizes its share of the investee's income and losses based on the percentage of the equity interest owned by the Group.

Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

**2.17. Property and equipment, Intangible assets**

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

| | |
|---|---|
| Intangible assets | |
| Software | 3.33%-52.63% |
| Property rights | 1.25%-50.0% |
| Property | 0.1%-33.3% |
| Office equipment and vehicles | 1-50% |
| Vehicle | 5.63% - 48% |

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are ready to use.

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of Property and equipment and Intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.
In the case of an effective hedge the realized profit or loss of the hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognizing the asset.

**2.18. Inventories**

The inventories shall be measured at the lower of cost and net realisable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
The Group uses generally FIFO formulas to the measurement of inventories.
Inventories shall be removed from books when they are sold, unusable or destroyed. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.
Repossessed assets are classified as inventories.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.19. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost.
The Group at initial recognition measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss.
In connection to the derivative financial liabilities measured at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment.

The Group designated some financial liabilities upon initial recognition to measure at fair value through profit or loss. This classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases ("accounting mismatch").

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

### 2.20. Leases

**The Group as a lessor**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception date and is reassessed only if there is a lease modification.

**Finance leases**

At the commencement date, a lessor derecognizes the assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.
The Group as a lessor recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease. The Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.
The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

**Operating leases**

The Group as a lessor recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis.
The depreciation policy for depreciable underlying assets subject to operating leases is consistent with the Group's normal depreciation policy for similar assets. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

**The Group as a lessee**

The Group recognizes a right-of-use asset and a lease liability at the commencement of the lease term except for short-term leases and leases, where the underlying asset is of low value (less than USD 5,000). For these leases, the Group recognizes the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.20. Leases [continued]**

**The Group as a lessee [continued]**

Deferred tax implication if the Group is lessee: At inception of the lease, there is no net lease asset or liability, no tax base and, therefore, no temporary difference. Subsequently, as depreciation on the right-of-use asset initially exceeds the rate at which the debt reduces, a net liability arises resulting in a deductible temporary difference on which a deferred tax asset should be recognized if recoverable. Assuming that the lease liability is not repaid in advance, the total discounted cash outflows should equal the total rental payments deductible for income tax purposes.

**Right-of-use asset**

The right-of-use assets are initially measured at cost, subsequently the Group applies cost model and these assets are depreciated on a straight line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the right-of-use asset are depreciated from the commencement date to the end of the useful life of the underlying asset.

**Lease liability**

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date discounted by using the rate implicit in the lease, or if this cannot be determined, by using the incremental borrowing rate of the Group.Variable lease payments that do not depend on an index or a rate but e.g. on revenues or usage are recognized as an expense. The Group always separates the non-lease components of the lease contracts and accounts them as an expense. Lease payments must be included in the measurement of the lease liability without value added taxes. Non-deductible VAT is recognized as other expense.

The lease liability is remeasured in case of reassessment of the lease liability or lease modification

**2.21. Investment properties**

Investment properties of the Group are land, buildings, part of buildings which held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Group measures the investment properties at cost less accumulated depreciation and impairment, if any.
The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. The depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.
The Group discloses the fair value of the investment properties in Note 14 established mainly by external experts.

**2.22. Share capital**

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court. Share capital is the capital the Bank raised by issuing common stocks at the date the shares were issued. The amount of share capital has not changed over the current period.

**2.23. Treasury shares**

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.24. Non-current assets held-for-sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group does not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.
The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. When the sale is expected to occur beyond one year, the Group measures the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRS.

The Group does not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

If the Group has classified an asset (or disposal group) as held for sale, but the criteria for that are no longer met, the Group ceases to classify the asset (or disposal group) as held for sale. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

The Group presents a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the Consolidated Statement of Financial Position. The liabilities of a disposal group classified as held for sale is presented separately from other liabilities in the Statement of Financial Position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed in the Notes.
The Group presents separately any cumulative income or expense recognized in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale. Results from discontinued operations are reported separately in the consolidated statement of profit or loss as result from discontinued operations.

### 2.25. Interest income and income similar to interest income and interest expense

Interest income and expense are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional income similar to interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are included in income similar to interest income.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

All interest income and expense recognized are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

### 2.26. Fees and Commissions

Fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis according to IFRS 15 Revenue from contracts with customers (see more details in Note 32). These fees are related to deposits, cash withdrawals, security trading, bank card etc.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.27. Dividend income

Dividend income refers to any distribution of an entity earnings to shareholders from stocks or mutual funds that is owned by the Group. The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

### 2.28. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:
- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:
- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.29. Banking tax

The Bank and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. The calculation is based on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year (not on the taxable profit). Therefore, the banking tax is considered as an other administrative expense, not as income tax.

### 2.30. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

In case of commitments and contingent liabilities, the management determines the adequacy of the loss allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors. The Group recognizes provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. For financial guarantees and loan commitments given which are under IFRS 9 the expected credit loss model is applied when the provision is calculated (see more details in Note 2.14.).

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

### 2.31. Share-based payment

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Profit or Loss as Personnel expenses.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### 2.32. Employee benefits

The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognize employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

### 2.33. Consolidated Statement of Cash-flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Group primarily on a gross basis. Net basis reporting are applied by the Group in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Group, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

For the purposes of reporting Consolidated Statement of Cash-flows, cash and cash equivalents include cash, due from banks and balances with the National Banks, excluding the compulsory reserve established by the National Banks. Consolidated cash-flows from hedging activities are classified in the same category as the item being hedged. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates and unrealized gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which have been revaluated.

### 2.34. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

### 2.35. Comparative figures

**Change in the classification and valuation policy of certain subsidized retail loans and FX margins**

In 2020, the Group changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. The interest payments on the retail loans are determined on the basis of the government bond reference yields and a multiplier. Previously, in accordance with the Group's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2020, the Group classified this type of loan as measured at fair value through profit or loss. The new accounting policy is in line with the practices of the majority of the players in the banking sector, thus better facilitating comparability. Therefore, in the Bank's opinion, the change in accounting policy results in a more reliable, comparable and relevant presentation of the effects of the loans in question on the Group's financial position and financial performance in the financial statements.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.35. Comparative figures [continued]**

**Change in the classification and valuation policy of certain subsidized retail loans and FX margins [continued]**

In parallel with the change in accounting policy, the Group also changed the structure of its balance sheet. In the statement of financial position, presenting loans in a uniform manner, based on the nature of the instruments, on the line Loans at amortized cost and mandatorily at fair value through profit or loss, with further details of classification and valuation category provided in Note 11 and any other notes as appropriate.

The new accounting policy is applied retrospectively by the Group as if it had always applied this accounting policy. The Group has made the following adjustments to the comparative figures. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy did not result in a material change in the carrying amount of the loans involved or equity. Therefore, the Group did not change the related balance sheet values for the adjustment relating to periods before those presented, and the Consolidated Statement of Financial Position contains only the data at the end of the current period and at the end of the comparative period.

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

- The Group recognizes interest income on loans measured at fair value through profit or loss for the period in the Income similar to Interest Income line at the value corresponding to transactional interest. The comparative value of the line of interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using the previously applied effective interest rate method.
- The Group presents the amount of commission income and commission expenses related to loans at fair value through profit or loss in the Fee and commission income and Fee and commission expense lines.
- The Group presents the change in the fair value of loans measured at fair value through profit or loss, broken down into two components:
  - The Group presents the portion of the change in fair value arising from changes in credit risk within Risk cost as Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss. This amount is determined using expected credit loss models used for loans measured at amortized cost. The comparative amount of Loss allowance on loans, placements and repo receivables has been reduced accordingly with the loss allowance and reversal amounts for the respective loans.
  - The Group presents the remaining component of the change in fair value under the (Losses) / Gains on financial instruments at fair value through profit or loss.

The change in accounting policy did not impact the net profit for the comparative period, nor the comparative earnings per ordinary share.

The other reclassification shown below relates to realized foreign exchange results which were previously presented within Net operating income. The change in presentation means that the result recognized on these transactions is now presented in Income from fees and commissions.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes regarding the loans at amortized cost. In the comparative figures, the Bank has reduced the previously disclosed amortized cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Group has also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked “Revised” by the Bank. The Bank has also revised the presentation of the detailed notes to the amended profit or loss line items for comparative information in accordance with the new values in the statement of profit or loss.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.35. Comparative figures [continued]**

**Change in the classification and valuation policy of certain subsidized retail loans and FX margins [continued]**

Amendments to the information published in the supplementary annexes concerned the following supplementary notes:

- Note 11 Loans at amortized cost and at fair value
- Note 30 Interest income, income similar to interest income and expenses
- Note 31 Loss allowances / impairment and provisions
- Note 36.1.1. Financial instruments by stages
- Note 36.1.2. Movement table of loss allowance / provision on financial instruments
- Note 36.1.3. Loan portfolio by countries
- Note 36.2. Maturity analysis of assets, liabilities and liquidity risk
- Note 36.4. Interest rate risk management
- Note 46 Net gain or loss realized on financial instruments
- Note 47 a) Fair value of financial assets and liabilities
- Note 48 Segment reporting by business and geographical segments

Except as described above, these consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2019.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.35. Comparative figures [continued]**

| Line item | 2020 | 2019 Revised presentation | Reclassification of amounts related to mandatorily measured at fair value through profit or loss | Reclassification of gains from foreign exchange margin | 2019 As previously presented |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest method | 841,901 | 762,639 | (14,863) | - | 777,502 |
| Income similar to interest income | 135,986 | 133,497 | 16,855 | - | 116,642 |
| **Interest income and income similar to interest income** | **977,887** | **896,136** | **1,992** | **-** | **894,144** |
| **Interest expense** | **(195,216)** | **(197,095)** | **-** | **-** | **(197,095)** |
| Loss allowance on loans, placements and on repo receivables | (200,315) | (44,605) | 4,515 | - | (49,120) |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | (3,262) | (4,376) | (4,376) | - | - |
| Further risk cost items | (15,093) | (7,706) | - | - | (7,706) |
| **Risk cost total** | **(218,670)** | **(56,687)** | **139** | **-** | **(56,826)** |
| **NET INTEREST INCOME AFTER RISK COST** | **564,001** | **642,354** | **2,131** | **-** | **640,223** |
| **Income from fees and commissions** | **486,529** | **447,084** | **-** | **33,736** | **413,348** |
| **Net profit from fees and commissions** | **397,633** | **374,181** | **-** | **33,736** | **340,445** |
| Foreign exchange gains, net | 19,204 | 6,782 | - | (33,736) | 40,518 |
| (Losses) / Gains on financial instruments at fair value through profit or loss | (2,396) | (849) | (2,131) | - | 1,282 |
| **Net operating income** | **27,455** | **91,834** | **(2,131)** | **(33,736)** | **127,701** |

## NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS as adopted by EU requires the Management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial s tatements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on expected loss and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

### 3.1. Loss allowances on financial instruments exposed to credit risk

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.
The use of the three stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized (see more details in Note 36.1.)

### 3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

### 3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognized based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.
Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 24.)
Other provision includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES [continued]**

### 3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".
The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

### 3.5. Business model

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Group manages mainly loans and advances and long term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
- Business model whose objective is to achieve gains in a short term period. Within this business model the Group manages securities and derivative financial instrument.

## NOTE 4: IMPACT OF CORONA VIRUS (COVID-19)

Covid-19 has had substantial implications for the operations of the Group during 2020. Below are some of the more important Covid-19 related events that occurred by country of operation.

**Hungary**

- On 16 March 2020 the NBH decided to expand the range of eligible collaterals with performing corporate loans. Effective from 11 May 2020 only corporate loans exceeding HUF 1 billion can be used as collateral in the liquidity providing operations.
- In addition to the 1, 3, 6 and 12-month tenders announced every Monday in the same way, the NBH announced one-week FX swap tenders providing forint liquidity on a daily basis from 17 March 2020 until further notice, in order to maintain the appropriate level of liquidity for the banking sector.
- On 18 March 2020 the NBH took measures to support the operation of banks and strengthen the banking system. Among others the NBH requested banks and their owners to make sure that dividends are neither approved, nor paid until the end of September of 2020.
- On 18 March 2020 the Prime Minister of Hungary announced the first stage of economic and job protection measures.The steps, among others, included:
  - a blanket debt repayment moratorium;
  - the introduction of the annual percentage rate "APR" caps on new consumer loans: pursuant to the relevant Government Decrees, APR is temporarily capped at central bank base rate + 5 percentage points in the case of loans to consumers that are not collateralized by a mortgage and are disbursed based on a contract concluded after 19 March 2020. This provision must be applied until 31 December 2020, then following this deadline the APR set out in the given lender's Terms & Conditions effective at the time of the signing of the contract will be applicable;
  - the extension of short-term business loans until 30 June.
- Pursuant to Government Decree No. 47/2020. (III. 18.) and Government Decree No. 62/2020. (III. 24.), a moratorium on payments was introduced in Hungary concerning both principal, interest and fee payment obligations arising from both credit, loan and finance lease amounts that have already been disbursed until 18 March 2020. The moratorium did not involve debt forgiveness element. The first moratorium was effective until 31 December 2020. The scope of the moratorium included, among others, both retail and corporate debtors. Regarding details and technical provisions, the non-paid interest during the payment holiday cannot be capitalized to the outstanding principal (neither during the moratorium, nor afterwards). The amount of delayed interest accumulated during the moratorium must be repaid after the moratorium in equal instalments, evenly spread over the remaining years of the loan tenor, together with the due instalments. Following the moratorium, the tenor will be prolonged in a way that the sum of the due instalment and the unpaid interest during the moratorium (which is to be repaid in equal instalments) in total should not exceed the instalment according to the original contract. Rules applicable to the interest must also be applied to the fees. The borrower's participation was automatic, but the moratorium did not affect the debtors' right to continue to pay according to the original contractual terms.
- On its 24 March 2020 meeting the Monetary Council decided to introduce a new fixed-rate collateralized loan instrument with maturities of 3, 6 and 12 months and 3 and 5 years. Lending will be provided by the NBH at a fixed interest rate (the NBH defines the interest rate of the instrument at each tender, but the rate may not be lower than the base rate).
- On 1 April 2020 the NBH decided to announce one-week deposit tenders at a weekly frequency. The interest rate on the instrument equals to the central bank base rate.
- On 1 April 2020 the NBH announced that effective from 1 July the capital buffer requirements for systemically important banks will be released. The banks must rebuild their capital buffer initially prescribed for 2020 gradually in three years from 2022 onwards. At the time of the decision the O-SII buffer applicable for OTP Bank was 2%.
- On 4 April 2020 the Minister of Prime Minister's Office revealed that the Government expects banks to contribute HUF 55 billion into the new epidemic fund. Pursuant to the Government Decree 108/2020 published on 14 April, the new special tax levied on banks is to be paid in the 2020 tax year, in three equal instalments (in June, September and December). The base of the new special tax is that part of the adjusted total assets (as defined in the legislation on the "old" bank tax) that exceeds HUF 50 billion. The tax rate is 19 bps.
- On 9 June 2020 the law allowing the deductibility of the new special banking levy payable in 2020 was promulgated. The new once-off special banking tax will be returned to the banking system over the next five years through deductions from the nominal amount of the "old" bank tax (in the form of tax withholding).

**NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Hungary [continued]**

- The new special tax amounts to HUF 14.2 billion in the case of the Hungarian Group members of OTP Group. Pursuant to IFRS standards, parallel with the accounting of this new bank levy amongst the other expenses, the Group recognized the net present value of the related tax claims amongst the other income. Therefore, the new special tax did not materially affect the Group's bottom line earnings neither in 2020, nor will it do so over the next 5 years.
- On 7 April 2020 the NBH adjusted its policy instruments and modified its operational framework. The Monetary Council decided to make the interest rate corridor symmetrical, and left the base rate and the overnight deposit rate unchanged at 0.9% and -0.05%, respectively, and raised the overnight and one-week collateralized lending rates to 1.85%. The one-week deposit rate, at the time of the announcement, was equal to the 0.9% base rate; however, the Monetary Council decided to allow the interest rate on the instrument to deviate from the base rate upward or downward within the interest rate corridor. The NBH said that it will set the interest rate on the instrument each week, at the time of the actual tender's announcement.
- As part of the comprehensive set of measures outlined by the NBH on 7 April 2020, it decided to
  - launch a government security purchase programme in the secondary market to restore the stable liquidity position of the government securities market and influence the longer part of the yield curve, and to relaunch its mortgage bond purchase programme to improve the long-term supply of funding to the banking sector.
    Details of the programmes including the timing and strategic parameters were revealed on 28 April: accordingly, the NBH launched its government securities and mortgage bonds purchase programmes on 4 May 2020, and it will continue to purchase securities as long as economic and financial developments arising from the coronavirus pandemic require it.
    The NBH did not set a total amount of purchases for either programme.
  - The NBH launched the *Funding for Growth Scheme Go!* scheme on 20 April 2020. Including HUF 500 billion undrawn under the *FGS fix*, the NBH made available up to HUF 1,500 billion to the SME sector under the *FGS Go!*.
  - Within the framework of the *Bond Funding for Growth Scheme*, the so far unutilized over HUF 200 billion was still available for the NBH to purchase bonds issued by non-financial corporations headquartered in Hungary.
- On 16 April 2020 the Minister of Finance revealed further tax concessions amounting to HUF 200 billion. Among others, the social security contributions payable by employers were cut to 15.5% from 17.5% effective from July 2020.
- On 2 July 2020, the NBH decided to expand the loan purposes available in the *FGS Go!* structure.
- On 10 September 2020 the National Bank of Hungary, in the wake of increased uncertainties amid the pandemic, called upon credit institutions to extend the previously applied restriction on dividend payments and decisions, which was effective until 30 September 2020, until 1 January 2021.
- On 22 September 2020 the NBH increased the available amount under the Bond Funding for Growth programme from HUF 450 to 750 billion.
- As the utilisation of the *Funding for Growth Go!* scheme exceeded HUF 1,000 billion by mid-November, on 17 November 2020 the Monetary Council decided to raise the total available amount by HUF 1,000 billion (to HUF 2,500 billion).
- As set out in Government Decree 518/2020. (XI. 25.), published in the Gazette on 25 November 2020, starting from 1 January 2021 the Hungarian Government provides a non-refundable home renovation subsidy to families raising or expecting children by way of refunding certain part of their home renovation costs. Eligible families can get back 50% of their proven improvement expenses following the completion of the renewal, but maximum HUF 3 million. The subsidy can be applied for within 60 days after completing the home renovation and also paying the bills by the families, or until 31 December 2022 the latest.

**NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Hungary [continued]**

- On 19 December 2020 the Prime Minister announced the following measures directly affecting banking operations:
  - Extension of the payment moratorium in unchanged form: pursuant to Government Decree 637/2020. (XII. 22.) those borrowers are eligible for the moratorium effective between 1 January 2021 – 30 June 2021 that have principal, interest and fee payment obligations arising from a credit contract that have already been disbursed until 18 March 2020 (also considering Subsection (1) of Section 3 of Act CVII of 2020). With the above Decree the eligibility conditions stipulated in Act CVII of 2020 (published on 28 October 2020) for retail and corporate borrowers were repealed.
  - Subsidized home renovation loan: in order to help eligible families to take advantage of the non-refundable home renovation subsidy (for details, see Government Decree 518/2020. (XI. 25.)), a subsidized home renovation loan (for details, see Government Decree 641/2020 (XII. 22.)) was introduced by the Government.
- On 28 December 2020 the National Bank of Hungary announced that the following decisions were made:
  - The central bank recommended credit institutions not to pay dividends or not to make any irrevocable commitment to pay dividends after the 2019 and 2020 financial year, or from previous years' profits, until 30 September 2021. Furthermore, the central bank suggested that credit institutions should refrain from treasury share purchases for shareholder remuneration purposes until the same date (share buybacks for management remuneration purposes are an exemption). The related guideline was set out in a management circular published on 8 January 2021.
  - The NBH decided to amend the relevant detailed guidelines set out in its IFRS circular about the application of non-performing and forborne categories in connection with the payment moratorium, and based on this, its guidelines for creating provisions. The amended circular was released on 22 January 2021.
- Effective from 13 January 2021 the National Bank of Hungary extended the available amount for the Bond Funding for Growth scheme by HUF 750 billion to HUF 1,150 billion. At the same time it decided to increase the maximum maturity of corporate bonds that can be purchased by the central bank from 20 to 30 years. Also, the central bank's exposure limit to a company group was revised from HUF 50 billion to HUF 70 billion.
- On 4 February 2021 the Prime Minister announced an interest-free loan programme for companies in trouble in the wake of the pandemic. According to Government Resolution 1038/2021. (II. 5.) the programme will be administered by the Hungarian Development Bank, and the available amount under the programme will be HUF 100 billion. Companies can take out maximum HUF 10 million each for the purpose of covering wages and social contributions, overhead costs, general operating expenses and inventory financing. Client interest rate is 0%, the loan tenor can be up to 10 years, and the servicing of the loan will start after a 3 year grace period. The scope of eligible entities will be discussed with the Hungarian Chamber of Commerce and Industry.

**Bulgaria**

- On 19 March 2020 the Bulgarian National Bank (BNB) announced its decisions with the aim to strengthen the capital and liquidity position of the banking system:
  - to cancel the increase of the countercyclical capital buffer to 1% planned for 2020 and to 1.5% planned for 2021;
  - credit institutions shall not distribute dividends from the 2019 realized profit nor distribute other elements of the capital which are retained from the financial results from previous years.
- On 24 March 2020 key tax and spending measures were implemented: it was disallowed to accrue penalty interest and to carry out any action that may have negative consequences for borrowers due to non-payment. Legal enforcement and eviction procedures were also frozen during the emergency period.
- On 10 April 2020 the BNB approved the draft of the payment moratorium, which provides specific terms of the deferred payment. Accordingly, banks could voluntarily offer the moratorium to their clients. The eligible clients are those private individuals or companies who did not have more than 90 days of delay as at 1 March 2020, and have faced difficulties in meeting their obligations due to the COVID 19 pandemic. Participation was not automatic, clients had to indicate their intention to participate.

**NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Bulgaria [continued]**

- On 10 July 2020 Bulgaria officially joined the ERM-II currency mechanism.
- On 14 July 2020 the Bulgarian National Bank decided to extend the deadlines of the moratorium on payments. Accordingly, the deadline for submitting a request by customers for postponing payments and their approval by banks was extended until 30 September 2020; the deadline for postponing payments was extended until 31 March 2021. The extension of the deadlines applies to exposures for which no request for moratorium participation was submitted before 22 June 2020.
- DSK Bank is supervised by the ECB starting from 1 October 2020.
- On 11 December 2020, the National Bank of Bulgaria approved the extension of the debt repayment moratorium. The deadline to apply for the moratorium is 23 March 2021. Borrowers can take advantage of the deferral until 31 December 2021, but for maximum nine months altogether. Debtors who are not more than 90 days past due at the application date can benefit from the moratorium. In cases where the request for deferral was submitted before 30 September 2020, further deferral is possible, provided that the total duration of the moratorium does not exceed nine months.

**Croatia**

- On 20 March 2020 the Croatian National Bank (HNB) imposed measures on credit institutions regarding the retention of net income for 2019.
- On 20 March 2020 the HNB reduced the mandatory reserve requirement ratio from 12 to 9%, and started purchasing Republic of Croatia bonds with an aim of maintaining stability in the market of government securities.
- A payment moratorium on loans has not been implemented in Croatia through legislation. Therefore, the application for moratorium is voluntary and has to be requested by the client.
- However, on 1 April 2020 the Croatian Banking Association outlined a non-binding regime which could serve as a basis for setting the conditions of banks' own moratoria offered to their clients.
- Furthermore, all banks agreed not to initiate forced collection measures for the collection of debt from their debtors who, in the period of three months starting from April 2020, failed to meet their payment obligations. The measure applied to both legal and natural persons.
- On 10 July 2020 Croatia officially joined the ERM-II currency mechanism.
- On 1 October 2020, the loan repayment moratorium was extended (applications will be accepted until 31 March 2021.). The extension of the moratorium is available to customers whose primary source of income is the tourism sector, those living in earthquake-hit areas, and whose income has decreased by at least 30% compared to 2019. The duration of the moratorium can be up to 9 months except for those living in the area affected by the earthquake, for those borrowers it is 12 months.

**Serbia**

- On 18 March 2020 the National Bank of Serbia adopted decisions imposing a moratorium on debt payments:
  a) the moratorium was available for all debtors (natural persons, farmers and entrepreneurs, corporates);
  b) it implied a suspension of debt payments for at least 90 days and/or for the duration of the emergency state;
  c) lessors will not charge any default interest on past due outstanding receivables and will not initiate enforcement or enforced collection procedures, or take other legal actions to collect receivables from their clients.
- On 27 July 2020 National Bank of Serbia has adopted a regulation that offers borrowers one more suspension in the settlement of their liabilities to banks, maturing in the period between 1 August 2020 and 30 September 2020, as well as a suspension in the payment of liabilities that matured in July 2020, and which the borrower has not settled.
- In December 2020 the Serbian central bank decided to introduce the third round of payment moratorium with an effect between 1 January - 30 June 2021. The participation is opt-in. The deadline for submitting request by borrowers is 30 April 2021.

**NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Slovenia**

- On 20 March 2020 the Slovenian Parliament passed an act regarding the debt payment moratorium. Payment moratorium could be granted at the request of customers, in the case of loans disbursed before the declaration of an emergency, for both retail and corporate customers. Banks were obliged to provide a moratorium on loan repayments if the debtor proves that it had payment difficulties due to the epidemiological situation. The suspension of repayment may not exceed 12 months, the original term being extended by the duration of the suspension.
- On 10 April 2020 the Bank of Slovenia issued the Resolution on macroprudential measures for banks, in which it imposed restrictions on dividend and bonus payments.
- At the end of 2020 the option to apply for the moratorium has been extended to 26 February 2021. Banks have to approve applications until 31 March 2021. After the approval by the bank, the deferral of payments for eligible borrowers can be 9 months.

**Romania**

- On 24 March 2020 the National Bank of Romania (NBR) allowed banks to operate with a capital level excluding the capital buffer requirements.
- On 24 March 2020 the NBR decided to allow banks to operate with a Liquidity Coverage Ratio (LCR) below its minimum threshold (100%).
- Starting from 30 March 2020 a moratorium on loan payments was introduced. Based on client request, payment obligations arising from loans (including capital, interest and fees) could be suspended for maximum 9 months, but until 31 December 2020 the latest.
- Conditions for the applicant include that the income of the debtor was directly or indirectly affected by the pandemic. Legal entities had to prove that their activities were interrupted fully or partially; they suffered a more than 25% income decrease in March compared to the average of January and February 2020; and that they were not in insolvency at the date of the request.
- In May 2020 the deadline for applying for the moratorium was extended by one month, to 15 June.
- On 2 April, based on the European Central Bank advice, the NBR recommended local commercial banks not to distribute dividends in 2020.
- On 30 December 2020 the government decided to prolong the loan repayment moratorium, but borrowers can spend altogether up to 9 months in the moratoria. The application deadline is 15 March 2021 and requests should be processed by 31 March.

**Ukraine**

- On 30 January 2020 the National Bank of Ukraine (NBU) decided to lower the base rate by 250 bps, from 13.5% to 11%. The referemce rate was further cut to 10% on 23 March, followed by another 200 bps cut to 8% on 23 April. Effective from 12 June the base rate was further reduced by 200 bps to 6%.
- On 25 March 2020 the NBU delayed the schedule for banks to create the following capital buffers:
  - the capital conservation buffer, which was to be created from 1 January 2020 in the amount of 0.625% of regulatory capital and would gradually rise to 2.5% by 1 January 2023 according to the original schedule;
  - the systemically important institutions buffer, which originally was to be created the banks from 1 January 2021.
- The NBU recommended banks to refrain from paying out dividend until October 2020 (later extended until the end of 2020).
- On 30 March 2020 the Ukrainian Parliament adopted a prohibition on lenders to increase interest rates under loan agreements for the duration of the pandemic. The law forbids the banks from charging any penalties and fines on consumer loans during this period.
- In June 2020 Ukraine made a USD 5 billion deal with the IMF, which was designed to help the Ukrainian economy overcome the shocks of the coronavirus crisis.
- In September the NBU pre-announced plans to increase risks weights on consumer lending from 100% up to 150% starting in the second half of 2021.

**NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Russia**

- Through March and April, the Central Bank of Russia (CBR) engaged in repo auctions of more than 2,000 billion rubles to ensure sufficient liquidity in the banking sector. On 20 March the suspension of add-on risk weights was introduced by the CBR in case of restructured loans, mortgage loans, loans under equity construction contracts, and loans with low down payments.
- To support lending, effective until 1 January 2021, the CBR entitled credit institutions to recognize equity and debt securities, acquired before 1 March 2020, at fair value in the accounting records; and to recognize debt securities, acquired from 1 March 2020 through 30 September 2020, at fair value as of the acquisition date.
- On 27 March CBR announced that banks do not have to increase loan loss provisions if the loan was restructured due to consequences of the pandemic.
- The period from 30 March until 30 April was declared a nationwide paid holiday (banks were recognized as continuously working organizations). This period was later extended until 12 May.
- Starting from 3 April a debt repayment holiday came into effect for private individuals, sole proprietors and SMEs facing difficulties in connection with the coronavirus epidemic. Borrowers were able to apply at the lender for a moratorium on their mortgage and consumer loan payments (including interest and principal) for up to six months if their respective income fell by at least 30% in the month preceding the application compared with the average monthly income in the previous year. Applications could be registered until 30 September 2020.
- During the second quarter of 2020 the CBR cut the policy rate in three steps by 125 bps to 4.5%, and on 24 July a futher 25 bps cut was announced.
- On 10 August 2020 the CBR announced that it reduced risk weights for unsecured consumer loans issued after 1 September 2020, and cancelled additional capital requirements for consumer loans issued until 31 August 2019.
- On 20 January 2021 the Central Bank of Russia published its 2021-2022 road map for regulating consumer lending, as a result loosening measures taken in 2020 to facilitate lending will be reversed through higher risk weights being introduced.

The following table below shows the volume of loans in moratorium as at 31 December 2020 in OTP Group and the ratio of these loans of the portfolio by countries:

| | Current volume in moratorium (million LCY) | Current volume in moratorium (million HUF) | Gross loans (million HUF) | Current participation ratio |
|---|---|---|---|---|
| OTP Core | 1,760,231 | 1,760,231 | 4,631,974 | 38.00% |
| Merkantil Group | 120,379 | 120,379 | 416,987 | 28.87% |
| DSK Bank EAD (Bulgaria) | 60 | 11,190 | 2,634,870 | 0.42% |
| OTP banka d.d. (Croatia) | 3,372 | 163,052 | 1,642,170 | 9.93% |
| JSC "OTP Bank" (Russia) | 734 | 2,907 | 597,849 | 0.49% |
| SKB Banka d.d. Ljubljana (Slovenia) | 150 | 54,835 | 909,439 | 6.03% |
| OTP Bank Romania S.A. (Romania) | 545 | 40,853 | 861,393 | 4.74% |
| Crnogorska komercijalna banka a.d. (Montenegro) | 13 | 4,589 | 362,067 | 1.27% |
| **Total** | | **2,158,036** | **12,056,749** | |

**NOTE 4:** **IMPACT OF CORONA VIRUS (COVID-19) [continued]**

**Financial assets modified during the period related to moratorium for the year ended 31 December 2020**

| | Hungary | Serbia |
|---|---|---|
| | 2020 | 2020 |
| Gross carrying amount before modification | 1,119,943 | 53,080 |
| Loss allowance before modification | (61,445) | (9,881) |
| **Net amortised cost before modification** | **1,058,498** | **43,199** |
| Modification loss due to covid moratoria | (26,774) | (239) |
| **Net amortised cost after modification** | **1,031,724** | **42,960** |

## NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANKS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Cash on hand | | |
| In HUF | 113,492 | 186,172 |
| In foreign currency | 372,972 | 337,245 |
| | **486,464** | **523,417** |

Amounts due from banks and balances with the National Banks

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 208,074 | 79,295 |
| In foreign currency | 1,675,628 | 1,130,023 |
| | **1,883,702** | **1,209,318** |
| Over one year | | |
| In HUF | - | - |
| In foreign currency | 62,146 | 51,643 |
| | **62,146** | **51,643** |
| **Total** | **2,432,312** | **1,784,378** |
| Compulsory reserve set by the National Banks[1] | **(757,535)** | **(734,641)** |
| **Cash and cash equivalents** | **1,674,777** | **1,049,737** |

## NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 251,206 | 35,804 |
| In foreign currency | 729,249 | 194,985 |
| | **980,455** | **230,789** |
| Over one year | | |
| In HUF | 136,418 | 102,048 |
| In foreign currency | 33,359 | 10,563 |
| | **169,777** | **112,611** |
| Loss allowance on placements | (1,489) | (478) |
| **Total** | **1,148,743** | **342,922** |

[1] Foreign subsidiary banks within the Group have to comply with country specific regulation of local National Banks. Each country within the Group has its own regulation for compulsory reserve calculation and maintenance. Based on that banks are obliged to place compulsory reserve at their National Bank in a specified percentage of their liabilities considered in compulsory reserve calculation.

**NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn) [continued]**

An analysis of the change in the loss allowance on placements with other banks is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **478** | **485** |
| Loss allowance for the period | 16,476 | 3,463 |
| Release of loss allowance for the period | (15,629) | (3,602) |
| Foreign currency translation difference | 164 | 132 |
| **Closing balance** | **1,489** | **478** |

Interest conditions of placements with other banks:

| | 2020 | 2019 |
|---|---|---|
| Interest rates on placements with other banks denominated in HUF | 0.0% - 3.84% | (1.5)% - 3.84% |
| Interest rates on placements with other banks denominated in foreign currency | (17.33)% - 5.50% | (2.39)% - 15.5% |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on placements with other banks (%) | 0.70% | 2.06% |

**NOTE 7: REPO RECEIVABLES (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 183,656 | 45,545 |
| In foreign currency | 7,485 | 21,674 |
| | **191,141** | **67,219** |
| Loss allowance on repo receivables | (292) | (62) |
| **Total** | **190,849** | **67,157** |

An analysis of the change in the loss allowance on repo receivables is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **62** | **12** |
| Loss allowance for the period | 362 | 98 |
| Release of loss allowance for the period | (125) | (48) |
| Foreign currency translation difference | (7) | - |
| **Closing balance** | **292** | **62** |

**NOTE 7: REPO RECEIVABLES (in HUF mn) [continued]**

Interest conditions of repo receivables (%):

| | 2020 | 2019 |
|---|---|---|
| Interest rates on repo receivables denominated in HUF | (0.1)% - 0.9% | (0.1)% - 0.715 % |
| Interest rates on repo receivables denominated in foreign currency | (0.55)% - 4.15% | (0.25)% - 16.0% |

**NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| **Securities held for trading** | | |
| Government bonds | 38,036 | 71,194 |
| Discounted Treasury bills | 12,721 | 50 |
| Equity instruments and fund units | 3,740 | 1,076 |
| Other interest bearing securities | 2,075 | 20,212 |
| Other non-interest bearing securities | - | 7,516 |
| | **56,572** | **100,048** |
| **Non-trading securities mandatorily at fair value through profit or loss** | | |
| Equity instruments, open-ended fund units | 46,063 | 34,915 |
| Bonds | 11,514 | 4,402 |
| | **57,577** | **39,317** |
| **Debt securities designated at fair value through profit or loss** | 2,235 | 2,001 |
| **Total** | **116,384** | **141,366** |

**Positive fair value of derivative financial assets held for trading**

| | 2020 | 2019 |
|---|---|---|
| Foreign exchange swaps held for trading | 42,646 | 35,602 |
| Interest rate swaps held for trading | 36,922 | 61,198 |
| Foreign exchange forward contracts held for trading | 8,730 | 3,543 |
| CCIRS and mark-to-market CCIRS held -for trading[1] | 7,359 | 1,216 |
| Held-for-trading option contracts | 4,268 | 3,404 |
| Held-for-trading forward security agreement | 22 | 5 |
| Held-for-trading forward rate agreements | - | 13 |
| Other derivative transactions held for trading[2] | 17,676 | 5,643 |
| **Total** | **117,623** | **110,624** |
| **Total** | **234,007** | **251,990** |

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.3.)
[2] Other category includes: commodity and equity swaps, exchange traded futures and options.

**NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS [continued]** **(in HUF mn)**

An analysis of securities held for trading portfolio by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 19.7% | 27.8% |
| Denominated in foreign currency | 80.3% | 72.2% |
| **Total** | **100.0%** | **100.0%** |

An analysis of government bond portfolio by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 16.9% | 25.7% |
| Denominated in foreign currency | 83.1% | 74.3% |
| **Total** | **100.0%** | **100.0%** |

Interest conditions of held for trading securities (%):

| | 2020 | 2019 |
|---|---|---|
| Interest rates on securities held for trading denominated in HUF | 0.5% - 7.0% | 0.16% -7.50% |
| Interest rates on securities held for trading denominated in foreign currency | 0.38% - 6.38% | 0.01% - 8.25% |

Interest conditions and the remaining maturities of **securities held for trading** can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| With variable interest | 78 | 124 |
| With fixed interest | 17,147 | 24,496 |
| | **17,225** | **24,620** |
| Over one year | | |
| With variable interest | 1,370 | 1,046 |
| With fixed interest | 34,237 | 65,790 |
| | **35,607** | **66,836** |
| Non-interest bearing securities | 3,740 | 8,592 |
| **Total** | **56,572** | **100,048** |

**NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]**

Interest conditions and the remaining maturities of **non-trading securities** mandatorily measured at fair value through profit or loss are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| With variable interest | - | - |
| With fixed interest | - | 866 |
| | **-** | **866** |
| Over one year | | |
| With variable interest | - | 25 |
| With fixed interest | 5,492 | 3,511 |
| | **5,492** | **3,536** |
| Non-interest bearing securities | 52,085 | 34,915 |
| **Total** | **57,577** | **39,317** |

| | 2020 | 2019 |
|---|---|---|
| Dividend income from shares measured at fair value through profit or loss | 75 | 5,728 |

An analysis of **non-trading securities** mandatorily measured at fair value through profit or loss portfolio by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 57.1% | 70.6% |
| Denominated in foreign currency | 42.9% | 29.4% |
| **Total** | **100.0%** | **100.0%** |

| | 2020 | 2019 |
|---|---|---|
| Interest rates on non-trading securities mandatorily measured at fair value through profit or loss | 0.0% - 2.50% | 0.0% - 4.95% |

## NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Securities at fair value through other comprehensive income** | | |
| Government bonds | 1,855,134 | 1,772,612 |
| Mortgage bonds | 88,272 | 97,268 |
| Corporate bonds | 81,620 | 73,062 |
| *Listed securities:* | | |
| *In HUF* | *2,968* | *2,999* |
| *In foreign currency* | *52,633* | *46,486* |
| | *55,601* | *49,485* |
| *Non-listed securities:* | | |
| *In HUF* | *16,782* | *18,516* |
| *In foreign currency* | *9,237* | *5,061* |
| | *26,019* | *23,577* |
| Discounted Treasury bills | 76,358 | 443,690 |
| **Total** | **2,101,384** | **2,386,632** |

| | 2020 | 2019 |
|---|---|---|
| **Non-trading equity instruments to be measured at fair value through other comprehensive income** | | |
| *Listed securities:* | | |
| *In HUF* | - | - |
| *In foreign currency* | *4,931* | *5,443* |
| | *4,931* | *5,443* |
| *Non-listed securities:* | | |
| *In HUF* | *539* | *539* |
| *In foreign currency* | *29,855* | *34,165* |
| | *30,394* | *34,704* |
| | **35,325** | **40,147** |
| **Total** | **2,136,709** | **2,426,779** |

An analysis of securities at fair value through other comprehensive income by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 36.6% | 47.8% |
| Denominated in foreign currency | 63.4% | 52.2% |
| **Total** | **100.0%** | **100.0%** |

**NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]**

Detailed information of the non-trading equity instruments to be measured at fair value through other comprehensive income:

| | 2020 | 2019 |
|---|---|---|
| **Strategic investments closely related to banking actitvity** | | |
| Fair value | 27,502 | 27,621 |
| Dividend income from instruments held at the reporting date | 180 | 200 |
| **Strategic investments originated to offset outstanding** | | |
| Fair value | 2,637 | 2,091 |
| Dividend income from instruments held at the reporting date | 5 | - |
| **Other strategic investments** | | |
| Fair value | 5,186 | 10,435 |
| Dividend income from instruments held at the reporting date | 38 | 36 |
| **Derecognition** | | |
| Fair value of derecognized equity instrument, fund units | - | 3,002 |
| Dividend income from derecognized instruments | - | 7 |
| Cumulative gain / loss on disposal transferred to retained earnings | - | 1,613 |
| **Total** | | |
| Total fair values | **35,325** | **40,147** |
| Dividend income from instruments held at the reporting date | **223** | **236** |
| Fair value of derecognized equity instrument, fund units | **-** | **3,002** |
| Dividend income from derecognized instruments | **-** | **7** |
| Cumulative gain / loss on disposal transferred to retained earnings | **-** | **1,613** |

An analysis of government bonds by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 35.8% | 39.5% |
| Denominated in foreign currency | 64.2% | 60.5% |
| **Total** | **100.0%** | **100.0%** |

| | 2020 | 2019 |
|---|---|---|
| Interest rates on securities at fair value through other comprehensive income denominated in HUF | 0.5% - 7.5% | 0.16% - 7.5% |
| Interest rates on securities at fair value through other comprehensive income denominated in foreign currency | 0.0% - 18.0% | 0.25% - 17.25% |

**NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]**

| | 2020 | 2019 |
|---|---|---|
| Average interest rates securities at fair value through other comprehensive income denominated in HUF (%) | 2.17% | 1.96% |
| Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency (%) | 2.34% | 2.24% |

Interest conditions and the remaining maturities of securities at fair value through other comprehensive income can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| With variable interest | 4,780 | 7,799 |
| With fixed interest | 346,928 | 878,644 |
| | **351,708** | **886,443** |
| Over one year | | |
| With variable interest | 62,068 | 60,974 |
| With fixed interest | 1,687,608 | 1,439,215 |
| | **1,749,676** | **1,500,189** |
| Non-interest bearing securities | 35,325 | 40,147 |
| **Total** | **2,136,709** | **2,426,779** |

Certain securities are hedged against interest rate risk. See Note 36.4.

**NOTE 10: SECURITIES AT AMORTIZED COST (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Government bonds | 2,545,476 | 1,933,837 |
| Corporate bonds | 74,632 | 22,719 |
| Discounted Treasury bills | 10,469 | 6,516 |
| Mortgage bonds | - | 7,739 |
| | **2,630,577** | **1,970,811** |
| Loss allowance on securities at amortized cost | (5,657) | (2,739) |
| **Total** | **2,624,920** | **1,968,072** |

**NOTE 10: SECURITIES AT AMORTIZED COST (in HUF mn) [continued]**

Interest conditions and the remaining maturities of securities at amortized cost can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| With variable interest | - | - |
| With fixed interest | 156,532 | 261,358 |
| | **156,532** | **261,358** |
| Over one year | | |
| With variable interest | - | - |
| With fixed interest | 2,474,045 | 1,709,453 |
| | **2,474,045** | **1,709,453** |
| **Total** | **2,630,577** | **1,970,811** |

An analysis of securities at amortized cost by currency (%):

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | 86.9% | 86.5% |
| Denominated in foreign currency | 13.1% | 13.5% |
| **Total** | **100.0%** | **100.0%** |

Interest conditions of securities at amortized cost (%):

| | 2020 | 2019 |
|---|---|---|
| Interest rates of securities at amortized cost with variable interest | - | - |
| Interest rates of securities at amortized cost with fixed interest | 0.5% - 7.0% | 0.5% - 13.5% |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on securities at amortized cost (%) | 2.83% | 3.36% |

An analysis of the change in the loss allowance on securities at amortized cost is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **2,739** | **2,939** |
| Loss allowance for the period | 6,863 | 593 |
| Release of loss allowance | (4,061) | (755) |
| Use of loss allowance | 12 | (52) |
| Foreign currency translation difference | 104 | 14 |
| **Closing balance** | **5,657** | **2,739** |

## NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)

**Loans at amortized cost**

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| Within one year | | | |
| In HUF | 1,154,223 | 1,040,207 | 1,068,899 |
| In foreign currency | 2,445,006 | 2,127,581 | 2,127,581 |
| | **3,599,229** | **3,167,788** | **3,196,480** |
| Over one year | | | |
| In HUF | 2,002,814 | 1,761,761 | 2,205,543 |
| In foreign currency | 6,902,342 | 6,168,291 | 6,168,291 |
| | **8,905,156** | **7,930,052** | **8,373,834** |
| | **12,504,385** | **11,097,840** | **11,570,314** |
| Loss allowance on loans | (829,543) | (684,319) | (693,317) |
| **Total** | **11,674,842** | **10,413,521** | **10,876,997** |

An analysis of the gross loan portfolio at amortized cost by currency (%):

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| In HUF | 25.25% | 25.25% | 28.30% |
| In foreign currency | 74.75% | 74.75% | 71.70% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

Interest rates of the loan portfolio at amortized cost are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 0.0% - 47.7%[1] | 0.0% - 37.5% [1] |
| In foreign currency | (0.5)% - 90.0%[2] | (0.45)% - 90.0% [2] |
| Over one year | | |
| In HUF | 0.0% - 37.45%[1] | 0.0% - 37.45% [1] |
| In foreign currency | (0.5)% - 60.0%[2] | (0.45)% - 90.0% [2] |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on loans at amortized cost denominated in HUF (%) | 6.04% | 6.13% |
| Average interest rates on loans at amortized cost denominated in foreign currency (%) | 5.56% | 5.76% |

[1] The highest interest rate relates to HUF loans regarding purchasing products and services.
[2] The highest interest rate relates to loans in foreign currency regarding POS services in Russia.

**NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]**

An analysis of the change in the loss allowance on loans is as follows:

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| **Balance as at 1 January** | **684,319** | **685,364** | **685,364** |
| Reclassification | - | (4,483) | - |
| Opening change due to finance lease | - | (9,005) | (9,005) |
| **Balance as at 1 January** | **684,319** | **671,876** | **676,359** |
| Loss allowance for the period | 650,165 | 488,802 | 480,962 |
| Release of loss allowance | (382,800) | (290,134) | (277,779) |
| Use of loss allowance | (100,711) | (94,458) | (94,458) |
| Partial write-off [1] | (12,503) | (112,198) | (112,198) |
| Decrease due to IFRS 5 | - | (27,616) | (27,616) |
| Foreign currency translation difference | (8,927) | 48,047 | 48,047 |
| **Closing balance** | **829,543** | **684,319** | **693,317** |

Movement in loss allowance on loans and placements is summarized as below:

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| Loss allowance / (Release of loss allowance) on placements and gains from write-off and sale of placements | 789 | (235) | (235) |
| Loss allowance on loans and gains from write-off and sale of loans | 192,506 | 43,888 | 44,027 |
| **Total [2]** | **193,295** | **43,653** | **43,792** |

**Loans mandatorily at fair value through profit or loss**

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| Within one year | | | |
| In HUF | 48,770 | 27,166 | 2,566 |
| In foreign currency | - | - | - |
| | **48,770** | **27,166** | **2,566** |
| Over one year | | | |
| In HUF | 750,211 | 466,042 | 27,166 |
| In foreign currency | 3,624 | 3,070 | 3,070 |
| | **753,835** | **469,112** | **30,236** |
| **Total** | **802,605** | **496,278** | **32,802** |

[1] See details in Note 2.11.
[2] See details in Note 31.

**NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]**

An analysis of the loan portfolio mandatorily at fair value through profit or loss by currency (%):

| | 2020 | 2019 Revised | 2019 As previously presented |
|---|---|---|---|
| In HUF | 99.55% | 99.38% | 90.64% |
| In foreign currency | 0.45% | 0.62% | 9.36% |
| **Total** | **100.00%** | **100.00%** | **100.00%** |

Interest rates of the loan portfolio mandatorily at fair value through profit or loss are as follows (%):

| | 2020 | 2019 |
|---|---|---|
| Interest rates on loans denominated in HUF | 0.77% - 12.83% | 1.19% - 10.08% |
| Interest rates on loans denominated in foreign currency | 2.5% - 7.89% | 2.5% - 4.5% |

**NOTE 12: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Investments | | |
| Investments in associates (non-listed) | 14,149 | 14,254 |
| Other investments (non-listed) | 44,158 | 15,384 |
| | **58,307** | **29,638** |
| Impairment on investments | (5,864) | (8,816) |
| **Total** | **52,443** | **20,822** |

The investments in associates and other investments which are not consolidated are not significant neither on their own as separate entities nor in aggregate.

An analysis of the change in the impairment on investments is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **8,816** | **5,592** |
| (Release of impairment ) / Impairment for the period | (381) | 3,342 |
| Reclassification to securities at fair value through other comprehensive income | (2,654) | (80) |
| Foreign currency translation difference | 83 | (38) |
| **Closing balance** | **5,864** | **8,816** |

## NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

**For the year ended 31 December 2020**

| Cost | Intangible assets | Goodwill | Property | Office equipment | Vehicle | Construction in progress | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **320,749** | **111,687** | **279,538** | **192,369** | **23,079** | **22,717** | **31,799** | **981,938** |
| Additions | 92,313 | 1,413 | 7,342 | 27,533 | 2,208 | 36,835 | 6,586 | **174,230** |
| Foreign currency translation differences | 7,769 | (5,319) | 12,987 | 4,094 | 215 | 538 | 2,602 | **22,886** |
| Disposals | (56,183) | (6,388) | (14,361) | (11,737) | (1,609) | (36,687) | (12,061) | **(139,026)** |
| Reclassified as held-for-sale | (153) | - | - | (154) | - | - | - | **(307)** |
| **Closing balance** | **364,495** | **101,393** | **285,506** | **212,105** | **23,893** | **23,403** | **28,926** | **1,039,721** |

| Depreciation and amortization | Intangible assets | Property | Office equipment | Vehicle | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **183,026** | **71,085** | **139,813** | **5,508** | **10,889** | **410,321** |
| Charge for the period | 44,115 | 8,981 | 22,195 | 1,570 | 5,064 | **81,925** |
| Foreign currency translation differences | 3,875 | 2,540 | 2,681 | 150 | 1,113 | **10,359** |
| Disposals | (6,733) | (4,853) | (9,302) | (987) | (6,787) | **(28,662)** |
| Reclassified as held-for-sale | (103) | - | (95) | - | - | **(198)** |
| **Closing balance** | **224,180** | **77,753** | **155,292** | **6,241** | **10,279** | **473,745** |

## NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

**For the year ended 31 December 2020**

| Impairment | Intangible assets | Goodwill | Property | Office equipment | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **803** | **6,388** | **-** | **1,337** | **440** | **8,968** |
| Charge for the period | 2,328 | - | 1,601 | - | - | **3,929** |
| Foreign currency translation differences | 85 | - | 129 | 5 | 34 | **253** |
| Disposals | (512) | (6,388) | (608) | (1,300) | (136) | **(8,944)** |
| **Closing balance** | **2,704** | **-** | **1,122** | **42** | **338** | **4,206** |

| | Intangible assets | Goodwill | Property | Office equipment | Vehicle | Construction in progress | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|---|---|
| **Carrying value** | | | | | | | | |
| **Balance as at 1 January** | **136,920** | **105,299** | **208,453** | **51,219** | **17,571** | **22,717** | **20,470** | **562,649** |
| **Closing balance** | **137,611** | **101,393** | **206,631** | **56,771** | **17,652** | **23,403** | **18,309** | **561,770** |

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2020**

Carrying value of the investment and goodwill allocated to the appropriate cash generating units

| Subsidiaries | Carrying amounts of the subsidiary in HUF million | Goodwill values in HUF million | Goodwill values in million functional currency | Type of functional currency | Consolidated ownership interest | With ownership adjusted company value in HUF million | Applied long term grow rate | Applied long term discount rate |
|---|---|---|---|---|---|---|---|---|
| DSK Bank EAD [1] | | | | | | | | |
| (Bulgaria) | 280,692 | 42,984 | 28,541 | HUF | 99.91% | 717,318 | 3.00% | 8.13% |
| | | | 77 | BGN | | | | |
| OTP banka d.d. | | | | | | | | |
| (Croatia) | 205,349 | 21,196 | 58 | EUR | 100% | 336,403 | 2.69% | 9.37% |
| JSC "OTP Bank" | | | | | | | | |
| (Russia) | 124,410 | 37,202 | 9,395 | RUB | 97.91% | 173,315 | 1.89% | 13.26% |
| POK-DSK Rodina a.d. | | | | | | | | |
| (Bulgaria) | 943 | 11 | 11 | HUF | 99.75% | 941 | 3.00% | 8.13% |
| | **611,394** | **101,393** | | | | | | |

[1] DSK Bank EAD after merge with the previous Expressbank.

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2020 [continued]**

An analysis of the intangible assets for the year ended 31 December 2020 is as follows:

| Intangible assets | Self-developed | Purchased | Total |
|---|---|---|---|
| Gross values | 8,117 | 356,378 | **364,495** |
| Accumulated amortization | (3,675) | (220,505) | **(224,180)** |
| Impairment | - | (2,704) | **(2,704)** |
| **Carrying value** | **4,442** | **133,169** | **137,611** |

The Bank decided that the recoverable amount of goodwill is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, the method which is used based on discounted cash-flow calculation. On one hand is the free cash-flow method (FCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

On the basis of the internal regulation of the Bank as at 31 December 2020 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2021-2023. The basis for the estimation was the financial preliminary estimations for December 2020, and based on the prepared medium-term (2021-2023) forecasts. When the Bank prepared the calculations for the period 2021-2023, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors. In case of OTP Bank Romania S.A. a five-year explicit period (2021-2025) was used to be able to include the expected effects of the local strategic growth program more in detail. This five year period presents the achievement of a supposedly stable cost to income ratio, a stabilized risk cost ratio and a positive free cash-flow to equity (FCFE).

**Present value calculation with the FCF method**

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. The calculation is highly sensitive to the level of discount rate and growth rate used. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the government bond yield in foreign currency with a period of three year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published by Aswath Damodaran – New York STERN University, which were modified with CDS spread in case of Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way. In case the subsidiary owns subordinated debt, the discount rate is calculated as a weighted average of the expected return on equity presented previously and the subordinated debt's interest rate.
The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.
The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

**Summary of the impairment test for the year ended 31 December 2020**

Based on the valuations of the subsidiaries as at 31 December 2020 no goodwill impairment was needed to recorded by the Group.

## NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

**For the year ended 31 December 2019**

| Cost | Intangible assets | Goodwill | Property | Office equipment | Vehicle | Construction in progress | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **225,541** | **97,728** | **239,639** | **174,060** | **20,980** | **22,881** | **37,845** | **818,674** |
| Increase due to acquisition | 47,100 | - | 38,869 | 7,132 | 513 | 2,246 | 2,197 | **98,057** |
| Additions | 64,019 | 6,776 | 16,565 | 24,827 | 3,374 | 53,066 | 7,301 | **175,928** |
| Foreign currency translation differences | 12,405 | 7,298 | 6,144 | 4,804 | 313 | 448 | 878 | **32,290** |
| Disposals | (16,407) | (115) | (12,517) | (11,075) | (2,101) | (55,837) | (16,422) | **(114,474)** |
| Reclassified as held-for-sale | (12,692) | - | (9,188) | (7,646) | - | (91) | - | **(29,617)** |
| Change in consolidation scope | 783 | - | 26 | 267 | - | 4 | - | **1,080** |
| **Closing balance** | **320,749** | **111,687** | **279,538** | **192,369** | **23,079** | **22,717** | **31,799** | **981,938** |

| Depreciation and amortization | Intangible assets | Property | Office equipment | Vehicle | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **148,396** | **68,223** | **130,063** | **5,439** | **14,467** | **366,588** |
| Charge for the period | 35,247 | 7,830 | 18,944 | 1,508 | 5,397 | **68,926** |
| Foreign currency translation differences | 831 | 2,932 | 4,135 | 140 | 110 | **8,148** |
| Disposals | - | (3,016) | (7,473) | (1,579) | (9,085) | **(21,153)** |
| Reclassified as held-for-sale | (1,619) | (4,885) | (6,021) | - | - | **(12,525)** |
| Change in consolidation scope | 171 | 1 | 165 | - | - | **337** |
| **Closing balance** | **183,026** | **71,085** | **139,813** | **5,508** | **10,889** | **410,321** |

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2019 [continued]**

| Impairment | Intangible assets | Goodwill | Property | Office equipment | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January** | **2,200** | **5,962** | **28** | **34** | **585** | **8,809** |
| Charge for the period | 803 | 6,388 | | 1,294 | 1,991 | **10,476** |
| Foreign currency translation differences | - | - | - | 9 | 12 | **21** |
| Disposals | (2,200) | (5,962) | (28) | - | (2,148) | **(10,338)** |
| **Closing balance** | **803** | **6,388** | **-** | **1,337** | **440** | **8,968** |

| | Intangible assets | Goodwill | Property | Office equipment | Vehicle | Construction in progress | Tangible assets subject to operating lease | Total |
|---|---|---|---|---|---|---|---|---|
| **Carrying value** | | | | | | | | |
| **Balance as at 1 January** | **74,945** | **91,766** | **171,388** | **43,963** | **15,541** | **22,881** | **22,793** | **443,277** |
| **Closing balance** | **136,920** | **105,299** | **208,453** | **51,219** | **17,571** | **22,717** | **20,470** | **562,649** |

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2019 [continued]**

Carrying value of the investment and goodwill allocated to the appropriate cash generating units

| Subsidiaries | Carrying amounts of the subsidiary in HUF million | Goodwill values in HUF million | Goodwill values in million functional currency | Type of functional currency | Consolidated ownership interest | With ownership adjusted company value in HUF million | Applied long term grow rate | Applied long term discount rate |
|---|---|---|---|---|---|---|---|---|
| DSK Bank EAD [1] (Bulgaria) | 280,692 | 28,541 | 28,541 | HUF | 100.00% | 648,176 | 3.40% | 8.11% |
| Expressbank AD (Bulgaria) | 177,638 | 13,030 | 77 | BGN | 99.74% | 175,023 | 3.40% | 8.11% |
| OTP banka d.d. (Croatia) | 205,349 | 19,187 | 58 | EUR | 100.00% | 418,384 | 2.69% | 8.85% |
| JSC "OTP Bank" (Russia) | 124,409 | 44,530 | 9,395 | RUB | 97.91% | 252,205 | 1.89% | 14.42% |
| POK-DSK Rodina a.d. (Bulgaria) | 943 | 11 | 11 | HUF | 99.75% | 941 | 3.40% | 8.11% |
| | **789,031** | **105,299** | | | | | | |

[1] DSK Bank EAD after merge with the previous Expressbank.

**NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]**

**For the year ended 31 December 2019 [continued]**

An analysis of the intangible assets for the year ended 31 December 2019 is as follows:

| Intangible assets | Self-developed | Purchased | Total |
|---|---|---|---|
| Gross values | 6,917 | 313,832 | **320,749** |
| Accumulated amortization | (3,083) | (179,943) | **(183,026)** |
| Impairment | - | (803) | **(803)** |
| **Carrying value** | **3,834** | **133,086** | **136,920** |

**Summary of the impairment test for the year ended 31 December 2019**

Based on the valuations of the subsidiaries as at 31 December 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book by the Group.

**NOTE 14: INVESTMENT PROPERTIES (in HUF mn)**

An analysis of the change in gross values of investment properties is as follows:

| Gross values | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **53,906** | **49,256** |
| Increase due to transfer from inventories or owner-occupied properties | 6,896 | 3,752 |
| Increase from purchase | 574 | 2,516 |
| Increase due to transfer from held-for-sale properties | 86 | 366 |
| Increase from acquisition | - | 299 |
| Other additions | - | 12 |
| Transfer to held-for-sale properties | (118) | (999) |
| Transfer to inventories or owner-occupied properties | (936) | (778) |
| Disposal due to sale | (8,725) | (1,278) |
| Other disposal | - | (7) |
| Foreign currency translation difference | 2,471 | 767 |
| **Closing balance** | **54,154** | **53,906** |

The applied depreciation and amortization rates were the following:

| | 2020 | 2019 |
|---|---|---|
| Depreciation and amortization rates | 1% - 20% | 1% - 22.2% |

**NOTE 14: INVESTMENT PROPERTIES (in HUF mn) [continued]**

An analysis of the movement in the depreciation and amortization on investment properties is as follows:

| **Depreciation and amortization** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **8,352** | **7,139** |
| Additions due to transfer from inventories or owner-occupied properties | 1,657 | 1,482 |
| Charge for the period | 908 | 926 |
| Additions due to transfer from held-for-sale properties | - | 2 |
| Transfer to inventories or owner-occupied properties | (10) | (710) |
| Disposal due to sale | (322) | (655) |
| Foreign currency translation difference | 798 | 168 |
| **Closing balance** | **11,383** | **8,352** |

An analysis of the movement in the impairment on investment properties is as follows:

| **Impairment** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **3,994** | **4,002** |
| Impairment for the period | 178 | 255 |
| Release of impairment for the period | (919) | (378) |
| Use of impairment | - | (27) |
| Additions due to transfer from inventories or owner-occupied properties | 587 | - |
| Foreign currency translation difference | 330 | 142 |
| **Closing balance** | **4,170** | **3,994** |

| **Carrying values** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **41,560** | **38,115** |
| **Closing balance** | **38,601** | **41,560** |
| **Fair values** | **37,842** | **45,768** |

The Group chose the cost model for measuring investment properties but estimates and reviews the fair value of the investment properties by external experts, these investment properties would have been presented on level 3 in the fair value hierarchy if the Group didn't apply cost method for these recognition.

| **Income and expenses** | **2020** | **2019** |
|---|---|---|
| Rental income | 2,520 | 2,061 |
| Direct operating expense of investment properties – income generating | 455 | 687 |
| Direct operating expense of investment properties – non income generating | 8 | 8 |

## NOTE 15: POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

**Positive fair value of derivative financial assets designated as fair value hedge**

| | 2020 | 2019 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as fair value hedge | 6,179 | 3,705 |
| Interest rate swaps designated as fair value hedge | 641 | 3,758 |
| **Total** | **6,820** | **7,463** |

## NOTE 16: OTHER ASSETS[1] (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Other financial assets** | | |
| Other advances | 26,806 | 18,294 |
| Receivables from card operations | 24,816 | 28,749 |
| Prepayments and accrued income on other financial assets | 23,521 | 25,498 |
| Trade receivables | 17,039 | 17,861 |
| Accrued day one gain of loans provided at below-market interest | 14,465 | 10,227 |
| Receivables from investment services | 10,716 | 3,896 |
| Stock exchange deals | 10,632 | 6,058 |
| Receivables due from pension funds and investment funds | 8,323 | 15,668 |
| Giro clearing accounts | 2,441 | 2,817 |
| Advances for securities and investments | 774 | 746 |
| Receivables from leasing activities | 431 | 1,768 |
| Other financial assets | 19,057 | 6,088 |
| Loss allowance on other financial assets | (18,459) | (14,617) |
| **Total** | **140,562** | **123,053** |
| | | |
| **Other non-financial assets** | | |
| Inventories | 78,488 | 58,420 |
| Prepayments and accrued income on other non-financial assets | 19,307 | 6,946 |
| Settlement and suspense accounts | 16,355 | 6,282 |
| Receivables, subsidies from the State, Government | 11,767 | 17,910 |
| Receivable from the National Asset Management | - | 62 |
| Other non-financial assets | 11,748 | 13,778 |
| Impairment on other non-financial assets | (11,753) | (11,871) |
| **Total** | **125,912** | **91,527** |

An analysis of the movement in the loss allowance on **other financial assets** is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **14,617** | **15,053** |
| Loss allowance for the period | 5,302 | 2,876 |
| Use of loss allowance | (1,607) | (3,455) |
| Reclassified as held-for-sale | - | (420) |
| Foreign currency translation difference | 147 | 563 |
| **Closing balance** | **18,459** | **14,617** |

[1] Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments are recovering in accordance with their maturity.

**NOTE 16: OTHER ASSETS[1] (in HUF mn) [continued]**

An analysis of the movement in the impairment on **other non-financial assets** is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **11,871** | **12,550** |
| Impairment for the period | 1,537 | 2,401 |
| Use of impairment | (2,219) | (2,890) |
| Transfer to tangible assets subject to operating lease | - | (585) |
| Foreign currency translation difference | 564 | 395 |
| **Closing balance** | **11,753** | **11,871** |

**NOTE 17: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 132,182 | 274,871 |
| In foreign currency | 117,672 | 166,813 |
| | **249,854** | **441,684** |
| Over one year | | |
| In HUF | 741,772 | 151,415 |
| In foreign currency | 193,689 | 219,812 |
| | **935,461** | **371,227** |
| **Total** | **1,185,315** | **812,911** |

Interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 0.0% - 20.0% | (0.03)% - 0.9% |
| In foreign currency | (0.56)% - 5.0% | (0.89)% - 21.5% [2] |
| Over one year | | |
| In HUF | (2.4)% - 2.73% | 0.0% - 3.84% |
| In foreign currency | (2.4)% - 17.6% | (0.45)% - 17.6% [2] |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF | 1.00% | 1.14% |
| Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in in foreign currency | 2.32% | 2.05% |

[1] Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments are recovering in accordance with their maturity.

[2] The highest interest rate for within and over one year due to banks relate to loans taken from EBRD in Ukraine.

## NOTE 18: REPO LIABILITIES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | - | 488 |
| In foreign currency | 8,379 | - |
| | **8,379** | **488** |
| Over one year | | |
| In HUF | - | - |
| In foreign currency | 109,612 | - |
| | **109,612** | **-** |
| **Total** | **117,991** | **488** |

Interest rates on repo liabilities are as follows:

| | 2020 | 2019 |
|---|---|---|
| Interest rates on repo liabilities denominated in HUF (%) | - | (0.85)% |
| Interest rates on repo liabilities denominated in foreign currency (%) | 0.0% - 3.85% | - |

## NOTE 19: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

| **Financial liabilities designated at fair value through profit or loss** | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 2,010 | 2,679 |
| In foreign currency | - | - |
| | **2,010** | **2,679** |
| Over one year | | |
| In HUF | 29,886 | 28,183 |
| In foreign currency | 2,235 | - |
| | **32,121** | **28,183** |
| **Total** | **34,131** | **30,862** |

Interest conditions of financial liabilities designated at fair value through profit or loss can be analysed as follows:

| | 2020 | 2019 |
|---|---|---|
| Interest rates on financial liabilities designated at fair value denominated in HUF within one year | 0.51% - 2.5% | 0.01% - 2.59% |
| Interest rates on financial liabilities designated at fair value denominated in HUF over one year | 0.0% - 2.5% | 0.01% - 2.59% |

**NOTE 20: DEPOSITS FROM CUSTOMERS (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | 6,383,882 | 5,454,729 |
| In foreign currency | 10,990,543 | 8,977,145 |
| | **17,374,425** | **14,431,874** |
| Over one year | | |
| In HUF | 327,165 | 302,049 |
| In foreign currency | 189,273 | 437,385 |
| | **516,438** | **739,434** |
| **Total** | **17,890,863** | **15,171,308** |

Interest rates on deposits from customers are as follows:

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | (4.58)% - 7.96% | (3.13)% - 7.96% |
| In foreign currency | (0.58)% - 16.5% | (0.6)% - 9.70% |
| Over one year | | |
| In HUF | 0.01% - 3.0% | (5.09)% - 7.96% |
| In foreign currency | 0.0% - 7.75% | 0.0% - 15% [1] |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on deposits from customers denominated in HUF | 0.10% | 0.08% |
| Average interest rates on deposits from customers denominated in foreign currency | 0.47% | 0.69% |

An analysis of deposits from customers by type is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Retail deposits | 10,695,792 | 59.8% | 9,195,778 | 60.6% |
| Corporate deposits | 6,298,143 | 35.2% | 5,171,579 | 34.1% |
| Municipality deposits | 896,928 | 5.0% | 803,951 | 5.3% |
| **Total** | **17,890,863** | **100.0%** | **15,171,308** | **100.0%** |

[1] The highest interest rate regarding foreign currency deposits relate to individually agreed deposits in Ukraine.

## NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| With original maturity | | |
| Within one year | | |
| In HUF | 130,676 | 26,139 |
| In foreign currency | 1,366 | 3,816 |
| | **132,042** | **29,955** |
| Over one year | | |
| In HUF | 332,125 | 363,159 |
| In foreign currency | 46 | 53 |
| | **332,171** | **363,212** |
| **Total** | **464,213** | **393,167** |

Interest rates on liabilities from issued securities are as follows:

| | 2020 | 2019 |
|---|---|---|
| Issued securities denominated in HUF | 0.0% - 2.5% | 0.0% - 9.0% |
| Issued securities denominated in foreign currency | 0.01% - 1.11% | 0.74% - 6.70% |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on issued securities denominated in HUF | 1.82% | 1.80% |
| Average interest rates on issued securities denominated in foreign currency | 1.44% | 0.06% |

**Issued securities denominated in HUF as at 31 December 2020 (in HUF mn)**

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Amortized cost (in HUF mn) | Interest conditions (actual interest rate in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 1 | OTPX2021A | 01/04/2011 | 01/04/2021 | 183 | 246 | indexed | NaN | hedged |
| 2 | OTPX2021B | 17/06/2011 | 21/06/2021 | 245 | 370 | indexed | NaN | hedged |
| 3 | OTPX2021C | 19/09/2011 | 24/09/2021 | 231 | 192 | indexed | NaN | hedged |
| 4 | OTPX2021D | 21/12/2011 | 27/12/2021 | 259 | 325 | indexed | NaN | hedged |
| 5 | OTPX2022A | 22/03/2012 | 23/03/2022 | 201 | 214 | indexed | NaN | hedged |
| 6 | OTPX2022B | 18/07/2012 | 18/07/2022 | 172 | 440 | indexed | 1.7 | hedged |
| 7 | OTPX2022C | 29/10/2012 | 28/10/2022 | 201 | 233 | indexed | 1.7 | hedged |
| 8 | OTPX2022D | 28/12/2012 | 27/12/2022 | 248 | 299 | indexed | 1.7 | hedged |
| 9 | OTPX2023A | 22/03/2013 | 24/03/2023 | 324 | 327 | indexed | 1.7 | hedged |
| 10 | OTPX2023B | 28/06/2013 | 26/06/2023 | 198 | 225 | indexed | 0.6 | hedged |
| | **Subtotal** | | | **2,262** | **2,871** | | | |

## NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in HUF as at 31 December 2020 (in HUF mn) [continued]

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Amortized cost (in HUF mn) | Interest conditions (actual interest rate in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 11 | OTPX2024A | 18/06/2014 | 21/06/2024 | 241 | 237 | indexed | 1.3 | hedged |
| 12 | OTPX2024B | 10/10/2014 | 16/10/2024 | 295 | 284 | indexed | 0.7 | hedged |
| 13 | OTPX2024C | 15/12/2014 | 20/12/2024 | 242 | 232 | indexed | 0.6 | hedged |
| 14 | OTPRF2021A | 05/07/2011 | 13/07/2021 | 2,607 | 2,807 | indexed | NaN | hedged |
| 15 | OTPRF2021B | 20/10/2011 | 25/10/2021 | 2,894 | 2,954 | indexed | NaN | hedged |
| 16 | OTPRF2021C | 21/12/2011 | 30/12/2021 | 527 | 544 | indexed | NaN | hedged |
| 17 | OTPRF2021D | 21/12/2011 | 30/12/2021 | 372 | 381 | indexed | NaN | hedged |
| 18 | OTPRF2021E | 21/12/2011 | 30/12/2021 | 76 | 74 | indexed | NaN | hedged |
| 19 | OTPRF2022A | 22/03/2012 | 23/03/2022 | 2,065 | 1,920 | indexed | 1.7 | hedged |
| 20 | OTPRF2022B | 22/03/2012 | 23/03/2022 | 831 | 772 | indexed | 1.7 | hedged |
| 21 | OTPRF2022C | 28/06/2012 | 28/06/2022 | 190 | 196 | indexed | 1.7 | hedged |
| 22 | OTPRF2022D | 28/06/2012 | 28/06/2022 | 260 | 251 | indexed | 1.7 | hedged |
| 23 | OTPRF2022E | 29/10/2012 | 31/10/2022 | 761 | 715 | indexed | 1.7 | hedged |
| 24 | OTPRF2022F | 28/12/2012 | 28/12/2022 | 623 | 592 | indexed | 1.7 | hedged |
| 25 | OTPRF2023A | 22/03/2013 | 24/03/2023 | 787 | 740 | indexed | 1.7 | hedged |
| 26 | OJB2021_I | 15/02/2017 | 27/10/2021 | 114,000 | 113,732 | 2 | fixed | |
| 27 | OJB2023_I | 05/04/2018 | 24/11/2023 | 44,120 | 44,623 | 1.75 | fixed | |
| 28 | OJB2024_A | 17/09/2018 | 20/05/2024 | 46,771 | 46,639 | 1.35 | floating | |
| 29 | OJB2024_C | 24/02/2020 | 24/10/2024 | 64,379 | 64,175 | 1.05 | floating | |
| 30 | OJB2024_II | 10/10/2018 | 24/10/2024 | 96,800 | 95,645 | 2.5 | fix | |
| 31 | OJB2025_II | 03/02/2020 | 26/11/2025 | 17,650 | 17,499 | 1.5 | fix | hedged |
| 32 | OJB2027_I | 23/07/2020 | 27/10/2027 | 65,800 | 64,705 | 1.25 | fix | |
| 33 | Other | | | 213 | 213 | | | |
| | **Total issued securities in HUF** | | | **464,766** | **462,801** | | | |

### Issued securities denominated in HUF as at 31 December 2019 (in HUF mn)

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Amortized cost (in HUF mn) | Interest conditions (actual interest rate in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 1 | OTPX2020A | 25/03/2010 | 30/03/2020 | 238 | 326 | indexed | NaN | hedged |
| 2 | OTPX2020B | 28/06/2010 | 09/07/2020 | 267 | 285 | indexed | NaN | hedged |
| 3 | OTPX2020C | 11/11/2010 | 05/11/2020 | 166 | 221 | indexed | NaN | hedged |
| 4 | OTPX2020D | 16/12/2010 | 18/12/2020 | 177 | 193 | indexed | NaN | hedged |
| 5 | OTPX2020E | 18/06/2014 | 22/06/2020 | 2,939 | 2,903 | indexed | 0.7 | hedged |
| 6 | OTPX2020F | 10/10/2014 | 16/10/2020 | 2,650 | 2,551 | indexed | 0.2 | hedged |
| 7 | OTPX2020G | 15/12/2014 | 21/12/2020 | 2,372 | 2,273 | indexed | 0.3 | hedged |
| 8 | OTPX2021A | 01/04/2011 | 01/04/2021 | 192 | 253 | indexed | NaN | hedged |
| 9 | OTPX2021B | 17/06/2011 | 21/06/2021 | 255 | 424 | indexed | NaN | hedged |
| 10 | OTPX2021C | 19/09/2011 | 24/09/2021 | 231 | 198 | indexed | NaN | hedged |
| | **Subtotal** | | | **9,487** | **9,627** | | | |

## NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in HUF as at 31 December 2019 (in HUF mn) [continued]

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Amortized cost (in HUF mn) | Interest conditions (actual interest rate in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 11 | OTPX2021D | 21/12/2011 | 27/12/2021 | 274 | 305 | indexed | NaN | hedged |
| 12 | OTPX2022A | 22/03/2012 | 23/03/2022 | 217 | 235 | indexed | NaN | hedged |
| 13 | OTPX2022B | 18/07/2012 | 18/07/2022 | 183 | 318 | indexed | 1.7 | hedged |
| 14 | OTPX2022C | 29/10/2012 | 28/10/2022 | 217 | 278 | indexed | 1.7 | hedged |
| 15 | OTPX2022D | 28/12/2012 | 27/12/2022 | 265 | 379 | indexed | 1.7 | hedged |
| 16 | OTPX2023A | 22/03/2013 | 24/03/2023 | 340 | 370 | indexed | 1.7 | hedged |
| 17 | OTPX2023B | 28/06/2013 | 26/06/2023 | 214 | 268 | indexed | 0.6 | hedged |
| 18 | OTPX2024A | 18/06/2014 | 21/06/2024 | 241 | 253 | indexed | 1.3 | hedged |
| 19 | OTPX2024B | 10/10/2014 | 16/10/2024 | 311 | 302 | indexed | 0.7 | hedged |
| 20 | OTPX2024C | 15/12/2014 | 20/12/2024 | 259 | 249 | indexed | 0.6 | hedged |
| 21 | OTPRF2020A | 12/07/2010 | 20/07/2020 | 2,152 | 2,252 | indexed | NaN | hedged |
| 22 | OTPRF2020B | 12/07/2010 | 20/07/2020 | 1,276 | 1,429 | indexed | NaN | hedged |
| 23 | OTPRF2020C | 11/11/2010 | 05/11/2020 | 2,622 | 2,662 | indexed | NaN | hedged |
| 24 | OTPRF2021A | 05/07/2011 | 13/07/2021 | 2,402 | 2,804 | indexed | NaN | hedged |
| 25 | OTPRF2021B | 20/10/2011 | 25/10/2021 | 2,655 | 2,858 | indexed | NaN | hedged |
| 26 | OTPRF2021C | 21/12/2011 | 30/12/2021 | 505 | 558 | indexed | NaN | hedged |
| 27 | OTPRF2021D | 21/12/2011 | 30/12/2021 | 357 | 385 | indexed | NaN | hedged |
| 28 | OTPRF2021E | 21/12/2011 | 30/12/2021 | 67 | 68 | indexed | NaN | hedged |
| 29 | OTPRF2022A | 22/03/2012 | 23/03/2022 | 1,869 | 1,797 | indexed | 1.7 | hedged |
| 30 | OTPRF2022B | 22/03/2012 | 23/03/2022 | 728 | 698 | indexed | 1.7 | hedged |
| 31 | OTPRF2022C | 28/06/2012 | 28/06/2022 | 171 | 205 | indexed | 1.7 | hedged |
| 32 | OTPRF2022D | 28/06/2012 | 28/06/2022 | 249 | 278 | indexed | 1.7 | hedged |
| 33 | OTPRF2022E | 29/10/2012 | 31/10/2022 | 661 | 645 | indexed | 1.7 | hedged |
| 34 | OTPRF2022F | 28/12/2012 | 28/12/2022 | 538 | 532 | indexed | 1.7 | hedged |
| 35 | OTPRF2023A | 22/03/2013 | 24/03/2023 | 760 | 746 | indexed | 1.7 | hedged |
| 36 | OJB2020_I | 19/11/2004 | 12/11/2020 | 5,503 | 5,599 | 9 | fixed | |
| 37 | OJB2020_II | 31/05/2011 | 12/11/2020 | 1,487 | 1,502 | 9 | fixed | |
| 38 | OJB2021_I | 15/02/2017 | 27/10/2021 | 114,000 | 112,979 | 2 | fixed | |
| 39 | OJB2023_I | 05/04/2018 | 24/11/2023 | 43,600 | 44,137 | 1.75 | fixed | |
| 40 | OJB2024_A | 17/09/2018 | 20/05/2024 | 48,475 | 48,130 | 0.72 | floating | |
| 41 | OJB2024_B | 18/09/2018 | 24/05/2024 | 55,829 | 55,461 | 0.72 | floating | |
| 42 | OJB2024_II | 10/10/2018 | 24/10/2024 | 92,000 | 90,771 | 2.5 | fix | |
| 43 | Other | | | 218 | 218 | | | |
| | **Total issued securities in HUF** | | | **390,132** | **389,298** | | | |

## NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

### Issued securities denominated in foreign currency as at 31 December 2020 (in HUF mn)

| | Name | Date of issue | Maturity | Type of FX | Nominal value | | Amortized cost | | Interest conditions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (FX mn) | (HUF mn) | (FX mn) | (HUF mn) | (actual interest rate in % p.a.) | |
| 1 | OTP_VK1_21/1 | 20/02/2020 | 20/02/2021 | USD | 1.39 | 414 | 1.39 | 414 | 1.1 | floating |
| 2 | OTP_VK1_21/2 | 02/04/2020 | 02/04/2021 | USD | 1.24 | 370 | 1.24 | 370 | 0.1 | floating |
| 3 | OTP_VK1_21/3 | 14/05/2020 | 14/05/2021 | USD | 1.18 | 351 | 1.18 | 351 | 0.01 | floating |
| 4 | OTP_VK1_21/4 | 18/06/2020 | 18/06/2021 | USD | 0.74 | 221 | 0.74 | 221 | 1.1 | floating |
| 5 | Other[1] | | | | 12 | 47 | 14 | 56 | | |
| | **Total issued securities in FX** | | | | **16.55** | **1,403** | **18.55** | **1,412** | | |
| | **Total issued securities** | | | | | | | **464,213** | | |

### Issued securities denominated in foreign currency as at 31 December 2019 (in HUF mn)

| | Name | Date of issue | Maturity | Type of FX | Nominal value | | Amortized cost | | Interest conditions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (FX mn) | (HUF mn) | (FX mn) | (HUF mn) | (actual interest rate in % p.a.) | |
| 1 | OTP_VK1_20/1 | 21/02/2019 | 21/02/2020 | USD | 1.53 | 450 | 1.54 | 452 | 1.48 | floating |
| 2 | OTP_VK1_20/2 | 04/04/2019 | 04/04/2020 | USD | 2.47 | 727 | 2.48 | 731 | 1.42 | floating |
| 3 | OTP_VK1_20/3 | 16/05/2019 | 16/05/2020 | USD | 0.89 | 263 | 0.89 | 263 | 1.32 | floating |
| 4 | OTP_VK1_20/4 | 27/06/2019 | 27/06/2020 | USD | 1.87 | 552 | 1.87 | 552 | 1.32 | floating |
| 5 | OTP_VK1_20/5 | 15/08/2019 | 15/08/2020 | USD | 2 | 589 | 2.01 | 591 | 1.2 | floating |
| 6 | OTP_VK1_20/6 | 26/09/2019 | 26/09/2020 | USD | 0.75 | 220 | 0.75 | 221 | 1.2 | floating |
| 7 | OTP_VK1_20/7 | 07/11/2019 | 07/11/2020 | USD | 1.68 | 494 | 1.68 | 495 | 1.1 | floating |
| 8 | OTP_VK1_20/8 | 19/12/2019 | 19/12/2020 | USD | 1.52 | 448 | 1.52 | 448 | 1.1 | floating |
| 9 | Other[1] | | | | 22 | 103 | 24 | 116 | | |
| | **Total issued securities in FX** | | | | **34.71** | **3,846** | **36.74** | **3,869** | | |
| | **Total issued securities** | | | | | | | **393,167** | | |

[1] Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 56 million as at 31 December 2020 and HUF 116 million as at 31 December 2019.

**NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]**

**Hedge accounting**

Certain issued structured securities are hedged by the Bank with interest rate swaps ("IRS") which exchange the fixed and floating interest rate with the interest rate of the securities between the parties at a notional amount that equals the nominal amount of the hedged securities. These are considered as fair value hedge relationships as they cover the interest rate risk arising from the coupons of the hedged securities. OTP Bank does not intend to be exposed to the risk embedded in the structured bonds, consequently as part of interest rate swap transaction the structured interest payments are swapped to floating interest rate.

This hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item

The cash-flows of the fixed rate securities issued by the Bank are exposed to the changes in the HUF/EUR foreign exchange rate and the volatility of the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

**Term Note Program in the value of HUF 200 billion for the year of 2020/2021**

On 21 April 2020 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 9 July 2020 the prospectus of Term Note Program and the disclosure as at 10 July 2020. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian and to other stock exchanges without any obligations.

**Term Note Program in the value of HUF 200 billion for the year of 2019/2020**

On 23 April 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 25 June 2019 the prospectus of Term Note Program and the disclosure as at 28 June 2019. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

## NOTE 22: DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING (in HUF mn)

**Negative fair value of derivative financial liabilities held for trading by type of contracts**

| | 2020 | 2019 |
|---|---|---|
| Foreign exchange swaps held for trading | 39,103 | 28,453 |
| Interest rate swaps held for trading | 32,960 | 46,717 |
| Foreign exchange forward contracts held-for-trading | 10,750 | 5,561 |
| CCIRS and mark-to-market CCIRS held for trading | 7,419 | 1,037 |
| Held for trading option contracts | 3,843 | 3,128 |
| Held-for-trading forward security agreement | 116 | 8 |
| Held-for-trading forward rate agreements | - | 32 |
| Other derivative transactions held for trading [1] | 10,632 | 1,807 |
| **Total** | **104,823** | **86,743** |

## NOTE 23: NEGATIVE FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

**The negative fair value of derivative financial liabilities designated as hedge accounting by type of contracts**

| | 2020 | 2019 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as fair value hedge | 6,007 | 1,870 |
| Interest rate swaps designated as fair value hedge | 5,334 | 8,839 |
| **Total** | **11,341** | **10,709** |

## NOTE 24: OTHER LIABILITIES[2] (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Other financial liabilities** | | |
| Liabilities connected to Cafeteria benefits | 121,711 | 80,003 |
| Liabilities from investment services | 62,667 | 101,417 |
| Accrued expense on other financial liabilities | 42,212 | 6,638 |
| Accounts payable | 41,460 | 50,974 |
| Liabilities from card transactions | 20,402 | 20,563 |
| Giro clearing accounts | 14,589 | 3,935 |
| Accrued day one gain of loan liabilities at below-market interest | 14,391 | 10,177 |
| Advances received from customers | 11,259 | 15,555 |
| Liabilities due to short positions | 9,131 | 7,040 |
| Loans from government | 3,435 | 1,291 |
| Dividend payable | 119 | 108 |
| Liabilities due to refunding assets | - | 9,133 |
| Other financial liabilities | 48,526 | 31,186 |
| **Subtotal** | **389,902** | **338,020** |

[1] Other category includes: commodity and equity swaps, exchange traded futures and options.

[2] Other liabilities – except deferred tax and corporate tax liabilities and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

**NOTE 24: OTHER LIABILITIES[1] (in HUF mn) [continued]**

| Other non-financial liabilities | 2020 | 2019 |
|---|---|---|
| Provision on off-balance sheet commitments and contingent liabilities | 114,518 | 102,449 |
| Clearing and giro settlement accounts | 38,912 | 35,393 |
| Salaries and social security payable | 25,207 | 24,937 |
| Liabilities related to housing loans | 8,868 | 6,055 |
| Accrued expense on other non-financial liabilities | 6,997 | 41,610 |
| Insurance technical reserve | 4,545 | 10,396 |
| Provision due to CHF loans conversion at foreign subsidiaries | 1,949 | 1,985 |
| Other non-financial liabilities | 16,839 | 31,695 |
| **Subtotal** | **217,835** | **254,520** |
| **Total** | **607,737** | **592,540** |

The provisions are detailed as follows:

| | 2020 | 2019 |
|---|---|---|
| Commitments and guarantees given | 54,810 | 48,662 |
| **Total provision according to IFRS 9** | **54,810** | **48,662** |
| Pending legal issues and tax litigation | 34,894 | 28,650 |
| Pensions and other retirement benefit obligations | 10,975 | 11,253 |
| Other long-term employee benefits | 2,396 | 2,343 |
| Provision due to CHF loans conversion at foreign subsidiaries | 1,949 | 1,985 |
| Restructuring | 1,531 | 2,626 |
| Other provision | 9,912 | 8,915 |
| **Total provision according to IAS 37** | **61,657** | **55,772** |
| **Total** | **116,467** | **104,434** |

[1] Other liabilities – except deferred tax liabilities, corporate tax and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

**NOTE 24: OTHER LIABILITIES[1] (in HUF mn) [continued]**

The movements of provisions according to IFRS 9 can be summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **48,662** | **28,144** |
| Provision for the period | 98,703 | 50,919 |
| Release of provision for the period | (90,041) | (42,924) |
| Use of provision | (2,276) | (1) |
| Change due to acquisition | - | 5,693 |
| Reclassified as held-for-sale | - | (451) |
| Transfer | - | 5,259 |
| Foreign currency translation differences | (238) | 2,023 |
| **Closing balance** | **54,810** | **48,662** |

The movements of provisions according to IAS 37 can be summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **55,772** | **57,285** |
| Provision for the period | 23,381 | 11,196 |
| Release of provision for the period | (17,251) | (7,538) |
| Use of provision | (4,501) | (4,438) |
| Change due to actuarial gains or losses related to employee benefits | (143) | 173 |
| Change due to acquisition | - | 4,005 |
| Reclassified as held-for-sale | - | (904) |
| Transfer | - | (5,259) |
| Foreign currency translation differences | 4,399 | 1,252 |
| **Closing balance** | **61,657** | **55,772** |

**NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| Within one year | | |
| In HUF | - | - |
| In foreign currency | 2,843 | 2,700 |
| | **2,843** | **2,700** |
| Over one year | | |
| In HUF | | |
| In foreign currency | 271,861 | 247,238 |
| | **271,861** | **247,238** |
| **Total** | **274,704** | **249,938** |

[1] Other liabilities – except deferred tax liabilities, corporate tax and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

**NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]**

**Types of subordinated bonds and loans**

| | 2020 | 2019 |
|---|---|---|
| Debt securities issued | 269,566 | 244,924 |
| Deposits | 5,138 | 5,014 |
| **Total** | **274,704** | **249,938** |

Interest rates on subordinated bonds and loans are as follows:

| | 2020 | 2019 |
|---|---|---|
| Denominated in HUF | - | - |
| Denominated in foreign currency | 2.5% - 5.0% | 2.6% - 5.0% |

| | 2020 | 2019 |
|---|---|---|
| Average interest rates on subordinated bonds and loans | 2.83% | 2.82% |

Subordinated bonds and loans can be detailed as follows:

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Interest rate as at 31 December 2020 |
|---|---|---|---|---|---|---|
| Subordinated bond | EUR 231.34 million | 07/11/2006 | Perpetual | 99.875% | Three-month EURIBOR + 3%, variable after year 10 (payable quarterly) | 2.48% |
| Subordinated bond | EUR 499.8 million | 15/07/2019 | 15/07/2029 | 99.738% | Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year. | 2.88% |
| Subordinated loan | USD 17.0 million | 05/06/2018 | 30/06/2025 | 100.00% | Bullet repayment, once at the end of the loan agreement | 5.00% |

## NOTE 26: SHARE CAPITAL (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |

The nominal value of the shares is HUF 100 per shares. All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore there are no restrictions on the distribution of dividends and the repayment of capital.

## NOTE 27: RETAINED EARNINGS AND RESERVES[1] (in HUF mn)

NBH warns the financial institutions in an executive circular dated 8 January 2021 not to pay or enter into an irrevocable obligation of dividend payment based on the performance for the financial years ended 2019 and 2020, or any reserves cumulated from previous years until 30 September 2021. Furthermore NBH warns to stop treasury share purchases (except share purchase related to share based payment programs) until 30 September 2021 too.
The intention of the Management is paying HUF 119,248 million dividend (for the year ended 2019 HUF 69,440 million and for the year ended 2020 HUF 49,808 million) regarding which - in accordance with the NBH circular - the Bank doesn't enter into an irrevocable obligation. Accordingly it remains as part of the shareholders' equity until the obligation hasn't been settled.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 744,802 million and HUF 632,436 million) and reserves (HUF 1,884,274 million and HUF 1,686,827 million) as at 31 December 2020 and 31 December 2019 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, share-based payment reserve, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.
In the Consolidated Financial Statements the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (3,369) million and HUF (72,404) million as at 31 December 2020 and 31 December 2019 respectively.

### Share capital

Share capital is the portion of the Bank's equity that has been obtained by the issue of shares in the corporation to a shareholder, usually for cash.

### Retained earnings

Profit of previous years generated by the Group that are not distributed to shareholders as dividends.

### Other reserves

The other reserves contain separated reserves due to statutory provisions.

### Put option reserve

OTP Bank Plc. and MOL Plc. entered into a share swap agreement in 16 April 2009, whereby OTP has changed 24,000,000 OTP ordinary shares for 5,010,501 „A series" MOL shares. The final maturity of the share swap agreement is 11 July 2022, until which any party can initiate cash or physical settlement of the transaction.
Put option reserve represents the written put option over OTP ordinary shares were accounted as a deduction from equity at the date of OTP-MOL share swap transaction.

[1] See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

**NOTE 27: RETAINED EARNINGS AND RESERVES[1] (in HUF mn) [continued]**

**Share-based payment reserve**

Share-based payment reserve represents the increase in the equity due to the goods or services were received by the Bank in an equity-settled share-based payment transaction, valued at the fair value of the goods or services received (see details in Note 39).

**Other comprehensive income**

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

**Net investment hedge in foreign operations**

Reserve presented as net investment hedge in foreign operations in the sharholders' equity is related to DSK Bank EAD, OTP banka d.d. and Crnogorska komercijalna banka a.d.

**Extra reserves**

The result of ICES bond issuance is presented as extra reserve in the consolidation books due to the detailed conditions below (see the details below in this note) and therefore any payment to the owner of the ICES will be booked as decreasing item in the reserves.

**Changes in equity accumulated in the previous year at the subsidiaries and due to consolidation**

The accumulated changes at the subsidiaries contain the accumulated gains and losses of the subsidiaries from the first day when they were included in the consolidation process. The changes due to consolidation contain the effect on the result of the eliminations in the consolidation process of the previous years.

| | 2020 | 2019 |
|---|---|---|
| Retained earnings | 744,802 | 632,436 |
| Capital reserve | 52 | 52 |
| Option reserve | (55,468) | (55,468) |
| Other reserves | 93,056 | 87,035 |
| Fair value of financial instruments measured at fair value through other comprehensive income | 61,396 | 68,314 |
| Share-based payment reserve | 42,573 | 39,179 |
| Fair value of derivative financial instruments designated as cash-flow hedge | - | 2 |
| Net investment hedge in foreign operations | (27,405) | (18,814) |
| Extra reserves | 89,935 | 89,935 |
| Net profit for the year | 259,416 | 412,241 |
| Changes in equity accumulated in the previous year at the subsidiaries and due to consolidation | 1,424,088 | 1,136,755 |
| Foreign currency translation differences | (3,369) | (72,404) |
| **Retained earnings and other reserves** | **2,629,076** | **2,319,263** |

[1] See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

**NOTE 27: RETAINED EARNINGS AND RESERVES[1] (in HUF mn) [continued]**

| **Fair value adjustment of securities at fair value through other comprehensive income** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **50,272** | **29,311** |
| Change of fair value correction | (10,897) | 16,258 |
| Deferred tax related to change of fair value correction | 1,403 | (1,904) |
| Transfer to profit or loss due to reclassification to FVTPL securities | (144) | (15) |
| Transfer to profit or loss due to derecognition | 3,329 | 7,382 |
| Deferred tax related to accumulated transfer to profit or loss | (472) | (760) |
| Foreign currency translation difference | 467 | - |
| **Closing balance** | **43,958** | **50,272** |

| **Expected credit loss on securities at fair value through other comprehensive income** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **2,927** | **3,360** |
| Increase of loss allowance | 6,303 | 1,368 |
| Release of loss allowance | (1,441) | (1,652) |
| Decrease due to sale, derecognition | (724) | (149) |
| Foreign currency translation difference | (81) | - |
| **Closing balance** | **6,984** | **2,927** |

| **Fair value changes of equity instruments as at fair value through other comprehensive income** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **15,115** | **10,092** |
| Change of fair value correction | (3,336) | 4,026 |
| Deferred tax related to change of fair value correction | 363 | (616) |
| Transfer to retained earnings due to derecognition | (1,746) | 1,613 |
| Foreign currency translation difference | 58 | - |
| **Closing balance** | **10,454** | **15,115** |

| **Net investment hedge in foreign operations** | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **(18,814)** | **(16,288)** |
| Change of fair value correction on hedging item | (9,440) | (2,776) |
| Deferred tax related to change of fair value correction | 849 | 250 |
| **Closing balance** | **(27,405)** | **(18,814)** |

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP Bank, and a further 4.5 million shares owned by the Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between years 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, and thereafter the Issuer has the right to redeem the bonds at face value. Following year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has a discretional right to cancel the interest payments. The interest payable is non-cumulative.
Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

[1] See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

## NOTE 28: TREASURY SHARES (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| Nominal value (Ordinary shares) | 2,392 | 1,778 |
| Carrying value at acquisition cost | 124,080 | 60,931 |

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares:

| | 2020 | 2019 |
|---|---|---|
| **Number of shares as at 1 January** | **17,779,845** | **18,475,833** |
| Additions | 8,296,388 | 906,194 |
| Disposals | (2,151,333) | (1,602,182) |
| **Closing number of shares** | **23,924,900** | **17,779,845** |

Change in carrying value:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **60,931** | **67,999** |
| Additions | 85,922 | 8,887 |
| Disposals | (22,773) | (15,955) |
| **Closing balance** | **124,080** | **60,931** |

## NOTE 29: NON-CONTROLLING INTEREST (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **4,956** | **2,452** |
| Increase due to business combination | - | 1,736 |
| Non-controlling interest included in net profit for the year | 221 | 341 |
| Changes due to ownership structure | - | (10) |
| Purchase of non-controlling interest | (382) | - |
| Decrease due to discontinued operation | (235) | - |
| Foreign currency translation difference | (444) | 437 |
| **Closing balance** | **4,116** | **4,956** |

The non-controlling interest is not significant in respect of the whole OTP Group.

**NOTE 30: INTEREST INCOME, INCOME SIMILAR TO INTEREST INCOME AND EXPENSE (in HUF mn)**

| | 2020 | 2019 |
|---|---|---|
| **Interest income calculated using the effective interest method from / on** | | |
| loans | 658,579 | 599,390 |
| securities at amortized cost | 69,905 | 62,468 |
| finance lease receivables | 54,046 | 40,914 |
| securities at fair value through other comprehensive income | 44,782 | 46,521 |
| placements with other banks | 7,572 | 8,989 |
| banks and balances with the National Banks | 5,103 | 2,037 |
| liabilities (negative interest expense) | 1,628 | 1,532 |
| repo receivables | 286 | 788 |
| **Subtotal** | **841,901** | **762,639** |
| | | |
| **Income similar to interest income from** | | |
| swap deals related to placements with other banks | 78,577 | 78,113 |
| loans mandatorily at fair value through profit or loss | 28,251 | 16,653 |
| swap deals related to credit institutions | 20,322 | 28,710 |
| rental income | 8,363 | 9,819 |
| non-trading securities mandatorily at fair value through profit or loss | 473 | 202 |
| **Subtotal** | **135,986** | **133,497** |
| | | |
| **Total interest income and income similar to interest income** | **977,887** | **896,136** |

| | 2020 | 2019 |
|---|---|---|
| **Interest expense due to / from / on** | | |
| swaps related to banks, National Governments and to deposits from the National Banks | 82,301 | 81,261 |
| deposits from customers | 53,196 | 59,242 |
| swaps related to deposits from customers | 17,226 | 24,789 |
| banks, National Governments and on deposits from the National Banks | 13,785 | 10,173 |
| issued securities | 7,750 | 6,749 |
| subordinated and supplementary bonds and loans | 7,718 | 4,743 |
| depreciation of assets subject to operating lease and investment properties | 5,624 | 6,147 |
| on financial assets (negative interest income) | 5,014 | 2,036 |
| leases | 1,623 | 1,652 |
| repo liabilities | 653 | 148 |
| other | 326 | 155 |
| **Total interest expense** | **195,216** | **197,095** |

## NOTE 31: LOSS ALLOWANCES / IMPAIRMENT AND PROVISIONS (in HUF mn)

| | 2020 | 2019 |
|---|---|---|
| **Loss allowance on loans** | | |
| Loss allowance for the period | 647,873 | 398,022 |
| Release of loss allowance | (390,102) | (297,925) |
| Income from loan recoveries | (98,300) | (60,735) |
| Modification loss on loans measured at amortized cost | 29,773 | 150 |
| Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss | 3,262 | 4,376 |
| Loss allowance on finance lease | 9,972 | 4,440 |
| Loss on financial lease | 310 | 888 |
| | **202,788** | **49,216** |
| **Loss allowance / (Release of loss allowance) on placements and on repo receivables** | | |
| Allowance for the period | 16,476 | 3,561 |
| Release of allowance | (15,691) | (3,650) |
| Gains on placements due to write-off and sale | 4 | (146) |
| | **789** | **(235)** |
| **Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortized cost** | | |
| Allowance for the period | 11,370 | 746 |
| Release of allowance | (4,061) | (755) |
| | **7,309** | **(9)** |
| **Release of impairment of intangible, tangible assets subject to operating lease and of investment properties** | | |
| Impairment for the period | 178 | 2,246 |
| Release of impairment | (1,056) | (2,526) |
| | **(878)** | **(280)** |
| **Provision for commitments and guarantees given** | | |
| Provision for the period | 98,703 | 49,832 |
| Release of provision | (90,041) | (41,837) |
| | **8,662** | **7,995** |
| **Loss allowances / Impairment and provisions** | **218,670** | **56,687** |

## NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

| Income from fees and commissions | 2020 | 2019 |
|---|---|---|
| **Fees and commissions related to lending[1]** | **33,233** | **25,687** |
| Deposit and account maintenance fees and commissions | 173,578 | 166,483 |
| Fees and commissions related to the issued bank cards | 83,474 | 76,247 |
| Currency exchange gains and losses | 46,290 | 33,736 |
| Fees related to cash withdrawal | 39,120 | 40,206 |
| Fees and commissions related to fund management | 28,800 | 35,354 |
| Fees and commissions related to security trading | 25,830 | 24,293 |
| Insurance fee income | 13,603 | 14,670 |
| Other | 42,601 | 30,408 |
| **Fees and commissions from contracts with customers** | **453,296** | **421,397** |
| **Total** | **486,529** | **447,084** |

| Fee type | Nature and timing of obligation settlement, and the significant payment terms | Revenue recognition under IFRS 15 |
|---|---|---|
| Deposit and account maintenance fees and commissions and fees related to cash withdrawal | The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees (e.g. OTP Direct fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.).<br><br>Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly.<br>In case of occasional services the Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %.<br>The rates are reviewed by the Group regularly. | Fees for ongoing account management services are charged on a monthly basis during the period when they are provided.<br><br>Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month. |

[1] Such kinds of fees and commissions related to lending which aren't included in the effective interest rate calculation due to their nature.

**NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]**

| Fee type | Nature and timing of obligation settlement, and the significant payment terms | Revenue recognition under IFRS 15 |
|---|---|---|
| Fees and commission related to the issued bank cards | The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions.<br>The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card.<br>In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount.<br>For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount.<br>The rates are reviewed by the Group regularly. | Fees for ongoing services are charged on a monthly basis during the period when they are provided.<br><br>Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month. |
| Fees and commissions related to security account management services | The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts.<br>Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period.<br>Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount.<br>Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged. | Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly.<br><br>Transaction-based fees are charged when the transaction takes place. |
| Fees and commissions related to fund management | Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee income are calculated on the basis of net asset value of the portfolio and by the fee rates determined in the contracts about portfolio management. | Fees for ongoing services are charged usually on monthly (mutual funds) or semi-annually (venture capital funds) during the period when they are provided but accrued monthly. |
| Net insurance fee income | Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.<br>In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %. | Fees for ongoing services are charged on a monthly basis during the period when they are provided. |
| Other | Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, fee of a copy of document, etc.<br>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount. | Fees for ongoing services are charged on a monthly basis during the period when they are provided.<br><br>Fees for ad hoc services are charged when the transaction takes place. |

## NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

| Expense from fees and commissions | 2020 | 2019 |
|---|---|---|
| Fees and commissions paid on loans | 6,974 | 3,146 |
| Fees and commissions related to issued bank cards | 32,487 | 29,528 |
| Interchange fees | 18,958 | 15,405 |
| Fees and commissions related to deposits | 7,000 | 5,422 |
| Fees and commissions related to security trading | 3,776 | 3,132 |
| Cash withdrawal transaction fees | 3,696 | 3,642 |
| Fees and commissions related to collection of loans | 1,447 | 948 |
| Insurance fees | 1,036 | 1,122 |
| Postal fees | 714 | 975 |
| Money market transaction fees and commissions | 113 | 73 |
| Other | 12,695 | 9,510 |
| **Total** | **88,896** | **72,903** |
| **Net profit from fees and commissions** | **397,633** | **374,181** |

## NOTE 33: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

| Other operating income | 2020 | 2019 |
|---|---|---|
| Negative goodwill due to acquisition | 7,504 | 80,667 |
| Gains on transactions related to property activities | 3,631 | 8,230 |
| Rental income | 1,835 | 1,308 |
| Income from computer programming | 1,529 | 1,080 |
| Income from real estate management | 1,092 | 446 |
| Gains on transactions related to insurance activity | 721 | 848 |
| Non-repayable assets received | 65 | 174 |
| Other income from non-financial activities | 17,084 | 18,340 |
| **Total** | **33,461** | **111,093** |

| Other operating expenses | 2020 | 2019 |
|---|---|---|
| Financial support for sport association and organization of public utility | 12,080 | 9,568 |
| Provision for off-balance sheet commitments and contingent liabilities | 6,336 | 3,827 |
| Loss allowance on other financial assets | 6,036 | 3,774 |
| Impairment on other non-financial assets | 1,537 | 2,481 |
| Non-repayable assets contributed | 688 | 3,627 |
| Expense from losses due to foreign currency loan conversion at foreign subsidiaries | 224 | 274 |
| Impairment on tangible and intangible assets | 51 | 2,358 |
| Fine imposed by Competition Authority | 25 | 143 |
| Release of provision due to foreign currency loan conversion at foreign subsidiaries | (206) | (169) |
| (Release of impairment) / Impairment on investments | (381) | 3,342 |
| Other | 13,057 | 15,533 |
| *Other expense from non-financial activities* | *5,551* | *6,361* |
| *Other costs* | *7,506* | *9,172* |
| **Total** | **39,447** | **44,758** |

**NOTE 33: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]**

| Other administrative expenses | 2020 | 2019 |
|---|---|---|
| **Personnel expenses** | | |
| Wages | 242,970 | 214,409 |
| Taxes related to personnel expenses | 42,576 | 40,902 |
| Other personnel expenses | 23,096 | 21,443 |
| **Subtotal** | **308,642** | **276,754** |
| **Depreciation, amortization of tangible, intangible assets, right-of-use assets and goodwill impairment[1]** | **92,761** | **81,935** |
| **Other administrative expenses** | | |
| Taxes, other than income tax [2] | 103,343 | 96,932 |
| Services | 100,031 | 88,579 |
| Professional fees | 44,542 | 38,362 |
| Administration expenses | 35,552 | 32,041 |
| Advertising | 17,913 | 18,794 |
| Rental fees | 4,883 | 7,820 |
| **Subtotal** | **306,264** | **282,528** |
| **Total** | **707,667** | **641,217** |

The table below contains the detailing of the fees for non-audit services:

Deloitte Auditing and Consulting Ltd.

| | 2020 | 2019 |
|---|---|---|
| OTP – annual audit – separate financial statements | 95 | 53 |
| OTP – annual audit – consolidated financial statements | 14 | 14 |
| Other audit services based on statutory provisions to OTP Group members | 861 | 970 |
| Other services providing assurance | 4 | 4 |
| Other non-audit services | 76 | 92 |
| **Total** | **1,050** | **1,133** |

Deloitte Network

| | 2020 | 2019 |
|---|---|---|
| Audit based on statutory provisions | 885 | 779 |
| Other services providing assurance | 157 | 27 |
| Tax consulting services | 67 | 46 |
| Other non-audit services | 508 | 710 |
| **Total** | **1,617** | **1,562** |

[1] See details in Note 13.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 17,665 million for the year 2020 and HUF 12,043 million for the year 2019, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2020 financial transaction levy was paid by the Bank in the amount of HUF 60 billion while for the year ended 31 December 2019 the same dutiy was HUF 61 billion.

## NOTE 34: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12% in Moldova, 12.5% in Cyprus, 15% in Serbia and Albania, 16% in Romania, 18% in Ukraine and Croatia, 19% in Slovenia, 20% in Russia, 25.5% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

| | 2020 | 2019 |
|---|---|---|
| Current tax expense | 25,543 | 42,591 |
| Deferred tax expense | 1,833 | 7,311 |
| **Total** | **27,376** | **49,902** |

A reconciliation of the net deferred tax asset/liability is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **(2,652)** | **13,904** |
| Deferred tax expense in profit or loss | (1,833) | (7,311) |
| Deferred tax receivable / (liability) related to items recognized directly in equity and in Comprehensive Income | 3,555 | (877) |
| Due to merge of subsidiary | (919) | - |
| Due to sale of subsidiary | - | (9,068) |
| Foreign currency translation difference | (1,824) | 700 |
| **Closing balance** | **(3,673)** | **(2,652)** |

A breakdown of the deferred tax assets are as follows:

| | 2020 | 2019 |
|---|---|---|
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | 4,650 | 3,948 |
| Premium and discount amortization on bonds | 4,198 | 4,975 |
| Loss allowance on granted loans | 4,083 | 12,187 |
| Loss allowance / impairment on other financial, non-financial assets | 3,440 | 3,238 |
| Unused tax allowance | 1,552 | 398 |
| Fair value adjustment of derivative financial instruments | 1,351 | 553 |
| Difference in depreciation and amortization | 1,061 | 1,074 |
| Difference due to IFRS 9 | 356 | 483 |
| Difference in accounting for leases | 298 | 156 |
| Amounts unenforceable by tax law | 247 | 210 |
| Tax accrual caused by negative taxable income | 238 | 902 |
| Adjustment from effective interest rate method | 127 | 254 |
| Temporary differences arising on consolidation | 120 | 827 |
| Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income | 93 | 2,766 |
| Other | 2,895 | 6,825 |
| **Deferred tax asset** | **24,709** | **38,796** |

**NOTE 34: INCOME TAXES (in HUF mn) [continued]**

A breakdown of the deferred tax liabilities are as follows:

| | 2020 | 2019 |
|---|---|---|
| Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income | (11,836) | (13,798) |
| Difference in depreciation and amortization | (7,858) | (9,200) |
| Deferred tax due to acquisition | (1,425) | (9,720) |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | (534) | (408) |
| Loss allowance on granted loans | (489) | (23) |
| Fair value adjustment of derivative financial instruments | (105) | - |
| Amounts unenforceable by tax law | (102) | (104) |
| Loss allowance / impairment on other financial, non-financial assets | (83) | (75) |
| Difference due to IFRS 9 | (52) | (70) |
| Temporary differences arising on consolidation | - | (598) |
| Premium and discount amortization on bonds | - | (2,588) |
| Other | (5,898) | (4,864) |
| **Deferred tax liabilities** | **(28,382)** | **(41,448)** |
| | | |
| **Net deferred tax asset / (liability) (the amounts presented in the statement of financial positions)** | **(3,673)** | **(2,652)** |
| Deferred tax assets | **22,317** | **26,543** |
| Deferred tax liabilities | **(25,990)** | **(29,195)** |

A reconciliation of the income tax income / expense is as follows:

| | 2020 | 2019 |
|---|---|---|
| Profit before income tax | 281,422 | 467,152 |
| Income tax expense at statutory tax rates | 36,847 | 55,812 |
| | | |
| **Income tax adjustments due to permanent differences are as follows:** | | |
| | | |
| Share-based payment | 305 | 319 |
| Correction on tax basis due to change of accounting policy | 230 | - |
| Amounts unenforceable by tax law | (38) | (58) |
| Permanent differences from unused tax losses | (167) | - |
| Deferred use of tax allowance | (1,039) | 5,046 |
| Use of tax allowance in the current year | (2,023) | (6,975) |
| Other | (6,739) | (4,242) |
| **Income tax expense** | **27,376** | **49,902** |
| | | |
| **Effective tax rate** | **9.73%** | **10.68%** |

**NOTE 35: LEASE (in HUF mn)**

**The Group as a lessee:**

Right-of-use assets by class of underlying assets as at 31 December 2020:

| 2020 | Property | Office equipment and vehicles | Total |
|---|---|---|---|
| Depreciation expense of right-of-use assets | 15,933 | 514 | **16,447** |
| Additions to right-of-use assets | 17,999 | 250 | **18,249** |
| Carrying amount of right-of-use assets at the end of the reporting period | 45,642 | 641 | **46,283** |

Right-of-use assets by class of underlying assets as at 31 December 2019:

| 2019 | Property | Office equipment and vehicles | Total |
|---|---|---|---|
| Depreciation expense of right-of-use assets | 13,272 | 1,008 | **14,280** |
| Additions to right-of-use assets | 21,081 | 842 | **21,923** |
| Carrying amount of right-of-use assets at the end of the reporting period | 52,038 | 912 | **52,950** |

The total cash outflow for leases was HUF 23,028 million and HUF 20,603 million in year 2020 and 2019, respectively.

The Group mainly leases real estate, a significant part of its right-of-use assets are related to branch offices, a smaller part to office buildings and office space.

Leasing liabilities by maturities:

| | 2020 | 2019 |
|---|---|---|
| Within one year | 10,937 | 9,789 |
| Over one year | 37,514 | 44,405 |
| **Total** | **48,451** | **54,194** |

Lease liabilities by payments:

| | 2020 | 2019 |
|---|---|---|
| Arising from fixed lease payments | 35,018 | 42,751 |
| Arising from variable lease payments | 13,433 | 11,443 |
| **Total** | **48,451** | **54,194** |

On 31 December 2020, HUF 126 million is the lease payment to be paid in the future due to leases not yet commenced to which the Group is committed.

| **Amounts recognized in profit or loss** | 2020 | 2019 |
|---|---|---|
| Interest expense on lease liabilities | 1,623 | 1,652 |
| Expense relating to short-term leases | 3,857 | 5,923 |
| Expense relating to leases of low value assets | 721 | 382 |
| Expense relating to variable lease payments not included in the measurement of lease liabilities | 2 | 4 |
| Income from subleasing right-of-use assets | 405 | 6 |

**NOTE 35: LEASE (in HUF mn) [continued]**

**The Group as a lessor:**

The Group's leasing activities are most significant in Hungary, Bulgaria, Slovenia, Ukraine and Croatia. The main activity of the leasing companies is finance leasing. About half of the underlying assets are passenger cars, besides this the Group leases mainly agricultural machinery, commercial vehicles, vessels and construction machinery.

The Group manages the risk associated with the rights held in the underlying assets by, inter alia, buy-back agreements, determining the residual values on level lower than future market values and registering pledge on the underlying asset.

**The Group as a lessor, finance lease:**

| **Amounts receivable under finance leases** | **2020** | **2019** |
|---|---|---|
| In less than 1 year | 410,639 | 317,799 |
| Between 1 and 2 years | 298,354 | 238,249 |
| Between 2 and 3 years | 211,257 | 196,142 |
| Between 3 and 4 years | 127,052 | 139,292 |
| Between 4 and 5 years | 71,428 | 93,361 |
| More than 5 years | 44,473 | 49,639 |
| **Total receivables from undiscounted lease payments** | **1,163,203** | **1,034,482** |
| Unguaranteed residual values | 796 | 401 |
| **Gross investment in the lease** | **1,163,999** | **1,034,883** |
| Less: unearned finance income | (88,257) | (52,030) |
| **Present value of minimum lease payments receivable** | **1,075,742** | **982,853** |
| Loss allowance | (24,602) | (13,590) |
| **Net investment in the lease** | **1,051,140** | **969,263** |

An analysis of the change in the gross values on finance receivables is as follows:

| | **2020** | **2019** |
|---|---|---|
| **Balance as at 1 January** | **982,853** | **519,004** |
| Increase due to acquisition | - | **344,286** |
| Additions due to new contracts | 372,664 | 432,625 |
| Additions due to interest income and amortized fees | 54,110 | 52,380 |
| Increase in residual value guarantees | - | 4,430 |
| Decrease in residual value guarantees | - | (2,657) |
| Decrease due to regular lease payment | (328,357) | (346,289) |
| Decrease due to sale | (3,924) | (3,629) |
| Decrease due to write-off | (349) | (848) |
| Decrease due to early repayment | (52,703) | (20,906) |
| Decrease due to repossession of the asset | (4,422) | (3,961) |
| Foreign currency translation difference | 55,870 | 8,418 |
| **Closing balance** | **1,075,742** | **982,853** |

**NOTE 35: LEASE (in HUF mn) [continued]**

**The Group as a lessor [continued]:**

**The Group as a lessor, finance lease [continued]:**

An analysis of the change in the loss allowance on finance receivables is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | **13,590** | **9,005** |
| Loss allowance for the period | 23,807 | 13,415 |
| Release of loss allowance | (13,240) | (8,535) |
| Use of loss allowance | (21) | (809) |
| Partial write-off | (50) | - |
| Foreign currency translation difference | 516 | 514 |
| **Closing balance** | **24,602** | **13,590** |

| **Result from finance leases** | **2020** | **2019** |
|---|---|---|
| Selling profit or loss | 249 | (78) |
| Finance income on the net investment in the lease | 54,046 | 40,914 |
| Income relating to variable lease payments not included in the measurement of the net investment in the lease | - | - |

**The Group as a lessor, operating lease:**

| **Amounts receivable under operating leases** | **2020** | **2019** |
|---|---|---|
| In less than 1 year | 11,285 | 11,990 |
| Between 1 and 2 years | 8,634 | 6,928 |
| Between 2 and 3 years | 4,856 | 5,033 |
| Between 3 and 4 years | 2,692 | 3,955 |
| Between 4 and 5 years | 1,653 | 1,781 |
| More than 5 years | 20 | 491 |
| **Total receivables from undiscounted lease payments** | **29,140** | **30,178** |

| **Result from operating leases** | **2020** | **2019** |
|---|---|---|
| Lease income | 9,861 | 11,127 |
| Therein lease income relating to variable lease payments that do not depend on an index or a rate | - | - |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

### 36.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

**Defining the expected credit loss on individual and collective basis**

**On individual basis:**

Individually assessed are the non-retail or non- micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (amortized cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.

The expected credit loss of the exposure equals the difference of the items' AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.
At least two scenarios must be used for the estimation of the expected cash flow. It should be at least one scenario in which the entity anticipates that realized cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**Defining the expected credit loss on individual and collective basis [continued]**

**On collective basis:**

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposure which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, significant on a stand-alone basis,
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above.

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

The Bank's Headquarter Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD - probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements are responsible for parameter estimations / updates, macroeconomic scenarios are calculated by OTP Bank Headquarter for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarter, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

At least on a yearly basis the impairment parameters should be backtested as well.

The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

#### 36.1.1. Financial instruments by stages

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2020:

| | | Gross carrying amount / Notinal value | | | | | Accumulated loss allowance / Provision | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | **Carrying amount / Exposure** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| Placements with other banks | **1,148,743** | 1,150,113 | 1 | 118 | - | **1,150,232** | 1,377 | 1 | 111 | - | **1,489** |
| Repo receivables | **190,849** | 191,141 | - | - | - | **191,141** | 292 | - | - | - | **292** |
| Mortgage loans | **3,311,651** | 2,729,387 | 522,312 | 174,137 | 70,809 | **3,496,645** | 10,486 | 29,970 | 101,972 | 42,566 | **184,994** |
| Loans to medium and large corporates | **4,342,003** | 3,758,377 | 604,480 | 167,402 | 31,744 | **4,562,003** | 43,544 | 67,479 | 98,800 | 10,177 | **220,000** |
| Consumer loans | **2,689,621** | 2,317,004 | 397,170 | 318,448 | 13,988 | **3,046,610** | 42,050 | 75,111 | 232,138 | 7,690 | **356,989** |
| Loans to micro and small enterprises | **521,578** | 391,810 | 141,197 | 34,721 | 4,105 | **571,833** | 5,671 | 17,982 | 24,654 | 1,948 | **50,255** |
| Car-finance loans | **362,425** | 292,973 | 71,576 | 8,370 | 3,219 | **376,138** | 1,732 | 3,746 | 5,735 | 2,500 | **13,713** |
| Municipal loans | **447,564** | 445,039 | 5,501 | 616 | - | **451,156** | 2,668 | 653 | 271 | - | **3,592** |
| ***Loans at amortized cost*** | **11,674,842** | **9,934,590** | **1,742,236** | **703,694** | **123,865** | **12,504,385** | **106,151** | **194,941** | **463,570** | **64,881** | **829,543** |
| Finance lease receivable | **1,051,140** | 857,452 | 183,719 | 33,606 | 965 | **1,075,742** | 4,141 | 8,103 | 12,188 | 170 | **24,602** |
| Interest bearing securities at fair value through other comprehensive income [1] | **2,101,384** | 2,099,713 | 1,671 | - | - | **2,101,384** | 6,856 | 128 | - | - | **6,984** |
| Securities at amortized cost | **2,624,920** | 2,629,778 | - | 799 | - | **2,630,577** | 4,858 | - | 799 | - | **5,657** |
| **Financial assets total** | **18,791,878** | **16,862,787** | **1,927,627** | **738,217** | **124,830** | **19,653,461** | **123,675** | **203,173** | **476,668** | **65,051** | **868,567** |
| Loan commitments given | **3,151,051** | 3,034,782 | 141,527 | 5,827 | - | **3,182,136** | 19,914 | 8,632 | 2,539 | - | **31,085** |
| Financial guarantees given | **796,961** | 777,513 | 28,646 | 5,065 | - | **811,224** | 10,044 | 1,450 | 2,769 | - | **14,263** |
| Other commitments given | **954,544** | 931,515 | 28,214 | 4,277 | - | **964,006** | 7,339 | 973 | 1,150 | - | **9,462** |
| **Financial liabilities total** | **4,902,556** | **4,743,810** | **198,387** | **15,169** | - | **4,957,366** | **37,297** | **11,055** | **6,458** | - | **54,810** |

[1] Interest bearing securities at fair value through other comprehensive income are recognized in the Consolidated statement of financial position as at fair value (see in Note 8). Loss allowances for securities at fair value through other comprehensive income that are in Stage 1 and / or in Stage 2 is recognized in the Other comprehensive income. It is included in the accumulated loss allowance of this table showed above.

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

#### 36.1.1. Financial instruments by stages [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2019:

| | | Gross carrying amount / Notinal value | | | | | Accumulated loss allowance / Provision | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | Carrying amount / Exposure | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Placements with other banks | **342,922** | 343,224 | 147 | 29 | - | **343,400** | 451 | 5 | 22 | - | **478** |
| Repo receivables | **67,157** | 67,219 | - | - | - | **67,219** | 62 | - | - | - | **62** |
| Mortgage loans | **2,882,136** | 2,675,104 | 134,459 | 203,089 | 19,760 | **3,032,412** | 6,877 | 4,926 | 99,533 | 38,940 | **150,276** |
| Loans to medium and large corporates | **3,842,864** | 3,672,225 | 136,145 | 168,671 | 25,399 | **4,002,440** | 39,412 | 15,169 | 100,178 | 4,817 | **159,576** |
| Consumer loans | **2,629,730** | 2,458,980 | 209,035 | 274,696 | 7,109 | **2,949,820** | 53,266 | 39,808 | 222,937 | 4,079 | **320,090** |
| Loans to micro and small enterprises | **408,813** | 371,093 | 35,128 | 38,668 | 4,116 | **449,005** | 5,656 | 4,934 | 28,469 | 1,133 | **40,192** |
| Car-finance loans | **306,228** | 272,230 | 34,352 | 6,189 | 4,362 | **317,133** | 1,922 | 1,286 | 4,904 | 2,793 | **10,905** |
| Municipal loans | **343,750** | 343,370 | 3,257 | 403 | - | **347,030** | 2,788 | 267 | 225 | - | **3,280** |
| ***Loans at amortized cost*** | **10,413,521** | **9,793,002** | **552,376** | **691,716** | **60,746** | **11,097,840** | **109,921** | **66,390** | **456,246** | **51,762** | **684,319** |
| Finance lease receivable | **969,263** | 867,905 | 86,222 | 26,967 | 1,759 | **982,853** | 3,805 | 2,383 | 7,320 | 82 | **13,590** |
| Interest bearing securities at fair value through other comprehensive income [1] | **2,386,632** | 2,386,632 | - | - | - | **2,386,632** | 2,927 | - | - | - | **2,927** |
| Securities at amortized cost | **1,968,072** | 1,970,083 | - | 728 | - | **1,970,811** | 2,014 | - | 725 | - | **2,739** |
| **Financial assets total** | **16,147,567** | **15,428,065** | **638,745** | **719,440** | **62,505** | **16,848,755** | **119,180** | **68,778** | **464,313** | **51,844** | **704,115** |
| Loan commitments given | 2,955,152 | 2,937,741 | 37,380 | 4,447 | - | **2,979,568** | 21,254 | 1,497 | 1,665 | - | **24,416** |
| Financial guarantees given | 641,925 | 635,410 | 11,864 | 5,740 | - | **653,014** | 6,927 | 974 | 3,188 | - | **11,089** |
| Other commitments given | 601,412 | 600,052 | 4,478 | 8,110 | - | **612,640** | 8,316 | 257 | 2,655 | - | **11,228** |
| **Financial liabilities total** | **4,198,489** | **4,173,203** | **53,722** | **18,297** | - | **4,245,222** | **36,497** | **2,728** | **7,508** | - | **46,733** |

[1] Interest bearing securities at fair value through other comprehensive income are recognized in the Consolidated statement of financial position as at fair value (see in Note 8). Loss allowances for securities at fair value through other comprehensive income that are in Stage 1 and / or in Stage 2 is recognized in the Other comprehensive income. It is included in the accumulated loss allowance of this table showed above.

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

### 36.1.2. Movement table of loss allowance / provision on financial instruments

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2020:

| 2020 | Opening balance | Increases due to origination and acquisition | Decreases due to derecognition | Transfers between stages (net) | Changes due to change in credit risk (net) | Changes due to modifications without derecognition (net) | Decrease in loss allowance account due to write-offs | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| **Stage 1** | **119,180** | **141,735** | **(42,569)** | **(185,201)** | **84,111** | **(4,294)** | **(56)** | **10,769** | **123,675** |
| Placements with other banks | 451 | 10,430 | (263) | - | (12,805) | - | - | 3,564 | **1,377** |
| Repo receivables | 62 | 306 | - | - | (76) | - | - | - | **292** |
| Loans at amortized cost | 109,921 | 125,137 | (40,604) | (183,599) | 92,372 | (4,132) | (55) | 7,111 | **106,151** |
| Finance lease receivables | 3,805 | 1,884 | (739) | (1,602) | 1,034 | (162) | (1) | (78) | **4,141** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | 4,941 | 3,978 | (963) | - | 3,586 | - | - | 172 | **11,714** |
| **Stage 2** | **68,778** | **57,383** | **(15,678)** | **83,013** | **3,297** | **6,130** | **(98)** | **348** | **203,173** |
| Placements with other banks | 5 | - | - | - | - | - | - | (4) | **1** |
| Repo receivables | - | - | - | - | - | - | - | - | **-** |
| Loans at amortized cost | 66,390 | 53,445 | (15,537) | 81,777 | 2,802 | 6,208 | (98) | (46) | **194,941** |
| Finance lease receivables | 2,383 | 3,938 | (141) | 1,236 | 367 | (78) | - | 398 | **8,103** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | - | - | - | - | 128 | - | - | - | **128** |
| **Stage 3** | **464,313** | **119,894** | **(99,345)** | **99,117** | **(15,385)** | **364** | **(92,476)** | **186** | **476,668** |
| Placements with other banks | 22 | - | - | - | 45 | - | - | 44 | **111** |
| Repo receivables | - | - | - | - | - | - | - | - | **-** |
| Loans at amortized cost | 456,246 | 117,198 | (98,810) | 98,813 | (15,913) | 373 | (92,226) | (2,111) | **463,570** |
| Finance lease receivables | 7,320 | 2,696 | (535) | 304 | 483 | (9) | (250) | 2,179 | **12,188** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | 725 | - | - | - | - | - | - | 74 | **799** |
| **Loss allowance on financial assets subtotal** | **652,271** | **319,012** | **(157,592)** | **(3,071)** | **72,023** | **2,200** | **(92,630)** | **11,303** | **803,516** |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

### 36.1.2. Movement table of loss allowance / provision on financial instruments [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2020 [continued]:

| 2020 | Opening balance | Increases due to origination and acquisition | Decreases due to derecognition | Transfers between stages (net) | Changes due to change in credit risk (net) | Changes due to modifications without derecognition (net) | Decrease in loss allowance account due to write-offs | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| **POCI** | **51,844** | **16,933** | **(11,752)** | **3,071** | **1,527** | **489** | **(735)** | **3,674** | **65,051** |
| Loans at amortized cost | 51,762 | 16,933 | (11,752) | 3,009 | 1,501 | 489 | (735) | 3,674 | **64,881** |
| Finance lease receivables | 82 | - | - | 62 | 26 | - | - | - | **170** |
| **Loss allowance on financial assets total** | **704,115** | **335,945** | **(169,344)** | **-** | **73,550** | **2,689** | **(93,365)** | **14,977** | **868,567** |
| Loan commitments and financial guarantees given - stage 1 | 36,497 | 20,712 | (2,118) | (900) | (15,344) | (453) | (1,785) | 688 | **37,297** |
| Loan commitments and financial guarantees given - stage 2 | 2,728 | 3,984 | (458) | 351 | 4,474 | 237 | - | (261) | **11,055** |
| Loan commitments and financial guarantees given - stage 3 | 7,508 | 1,071 | (570) | 549 | (3,545) | 257 | - | 1,188 | **6,458** |
| **Provision on financial liabilities total** | **46,733** | **25,767** | **(3,146)** | **-** | **(14,415)** | **41** | **(1,785)** | **1,615** | **54,810** |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

### 36.1.2. Movement table of loss allowance / provision on financial instruments [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2019:

| 2019 | Opening balance | Increases due to origination and acquisition | Decreases due to derecognition | Transfers between stages (net) | Changes due to change in credit risk (net) | Changes due to modifications without derecognition (net) | Decrease in loss allowance account due to write-offs | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| **Stage 1** | **96,264** | **103,075** | **(26,715)** | **(70,826)** | **16,342** | **(5,070)** | **(960)** | **7,070** | **119,180** |
| Placements with other banks | 463 | 3,975 | (144) | (1) | (1,165) | 9 | - | (2,624) | **513** |
| Loans at amortized cost | 90,469 | 97,486 | (25,619) | (70,820) | 19,575 | (5,079) | (960) | 8,674 | **113,726** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | 5,332 | 1,614 | (952) | (5) | (2,068) | - | - | 1,020 | **4,941** |
| **Stage 2** | **58,460** | **19,435** | **(14,881)** | **(2,818)** | **12,219** | **406** | **(388)** | **(3,655)** | **68,778** |
| Placements with other banks | 12 | 2 | - | 1 | 3 | - | - | (13) | **5** |
| Loans at amortized cost | 58,448 | 19,433 | (14,881) | (2,824) | 12,221 | 406 | (388) | (3,642) | **68,773** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | - | - | - | 5 | (5) | - | - | - | **-** |
| **Stage 3 and POCI** | **532,691** | **28,342** | **(75,635)** | **73,644** | **(16,854)** | **4,647** | **(79,597)** | **48,919** | **516,157** |
| Placements with other banks | 22 | - | - | - | - | - | - | - | **22** |
| Loans at amortized cost | 531,964 | 27,617 | (74,853) | 73,644 | (16,820) | 4,647 | (79,597) | 48,808 | **515,410** |
| Interest bearing securities at fair value through other comprehensive income and securities at amortized cost | 705 | 725 | (782) | - | (34) | - | - | 111 | **725** |
| **Loss allowance on financial assets subtotal** | **687,415** | **150,852** | **(117,231)** | **-** | **11,707** | **(17)** | **(80,945)** | **52,334** | **704,115** |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.1. Credit risk [continued]

### 36.1.2. Movement table of loss allowance / provision on financial instruments [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2019 [continued]:

| 2019 | Opening balance | Increases due to origination and acquisition | Decreases due to derecognition | Transfers between stages (net) | Changes due to change in credit risk (net) | Changes due to modifications without derecognition (net) | Decrease in loss allowance account due to write-offs | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| Loan commitments and financial guarantees given - stage 1 | 21,457 | 16,460 | (4,010) | 192 | (2,120) | (903) | (1) | 5,422 | **36,497** |
| Loan commitments and financial guarantees given - stage 2 | 2,821 | 1,188 | (92) | (265) | (1,226) | 55 | (1) | 248 | **2,728** |
| Loan commitments and financial guarantees given - stage 3 | 3,775 | 3,283 | (2,138) | 73 | 2,479 | (163) | (100) | 299 | **7,508** |
| **Provision on financial liabilities total** | **28,053** | **20,931** | **(6,240)** | **-** | **(867)** | **(1,011)** | **(102)** | **5,969** | **46,733** |

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.1. Credit risk [continued]

#### 36.1.3. Loan portfolio by countries

An analysis of the non-qualified and qualified gross loan portfolio by country is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Country** | **Gross amount of loan, finance lease receivable at amortized cost, placement with other banks and repo receivable portfolio** | **Loss allowance** | **Gross amount of loan, finance lease receivable at amortized cost, placement with other banks and repo receivable portfolio** | **Loss allowance** |
| Hungary | 4,513,208 | 209,216 | 3,650,513 | 125,245 |
| Bulgaria | 2,722,998 | 202,018 | 2,419,203 | 148,053 |
| Croatia | 1,663,534 | 101,640 | 1,380,175 | 68,906 |
| Serbia | 1,557,129 | 48,429 | 1,215,038 | 23,021 |
| Romania | 915,030 | 52,016 | 747,026 | 41,319 |
| Slovenia | 905,881 | 14,022 | 823,611 | 4,025 |
| Russia | 626,269 | 133,293 | 812,703 | 159,045 |
| Ukraine | 449,503 | 50,393 | 484,678 | 74,650 |
| Montenegro | 376,351 | 23,440 | 333,697 | 20,198 |
| France | 231,122 | 645 | 92,791 | 63 |
| Albania | 185,711 | 8,243 | 152,279 | 3,688 |
| Germany | 151,101 | 485 | 46,553 | 189 |
| Moldova | 132,163 | 4,586 | 104,796 | 1,797 |
| Slovakia | 74,614 | 225 | 69,158 | 24,769 |
| United States of America | 70,901 | 67 | 11,471 | 56 |
| Switzerland | 61,804 | 615 | 34,232 | 635 |
| Austria | 54,009 | 58 | 2,129 | 16 |
| Belgium | 49,401 | 119 | 24,042 | 98 |
| The Netherlands | 31,144 | 497 | 6,491 | 167 |
| Italy | 25,614 | 164 | 5,811 | 125 |
| Luxembourg | 25,062 | 46 | 347 | 13 |
| United Kingdom | 21,692 | 1,282 | 47,618 | 1,171 |
| Canada | 17,026 | 5 | 222 | 1 |
| Cyprus | 16,890 | 3,102 | 16,221 | 431 |
| Ireland | 14,053 | 211 | 401 | 118 |
| Norway | 7,525 | 39 | 568 | 36 |
| Denmark | 5,817 | 15 | 427 | 10 |
| Australia | 3,649 | 1 | 214 | 1 |
| Poland | 2,006 | 119 | 525 | 21 |
| Turkey | 1,567 | 93 | 433 | 46 |
| Spain | 996 | 55 | 893 | 23 |
| Greece | 989 | 141 | 2,147 | 132 |
| Czech Republic | 902 | 9 | 454 | 24 |
| Bosnia and Herzegovina | 795 | 248 | 382 | 44 |
| Sweden | 536 | 54 | 437 | 45 |
| Israel | 455 | 5 | 384 | 2 |
| United Arab Emirates | 388 | 31 | 34 | 24 |
| Kazakhstan | 193 | 8 | 73 | 21 |
| Egypt | 78 | 6 | 14 | 1 |
| Iceland | 56 | 56 | 51 | 49 |
| Latvia | 34 | 20 | 29 | 15 |
| Other [1] | 3,304 | 209 | 3,041 | 156 |
| **Total** | **14,921,500** | **855,926** | **12,491,312** | **698,449** |

[1] 1 Other category as at 31 December 2020 includes e.g.: Japan, China, Malta, Singapore, Macedonia, Algeria, Portugal, Finland, Saudi Arabia, Lithuania , Qatar, Belorussia, Republic of South-Africa, Tunisia, Armenia, Brazil, India, Syria, Hong Kong, South-Korea, Jordan, Estonia, Iran, Georgia, Kosovo, Morocco, Nigeria, Vietnam, Republic of Pakistan, Kyrgyzstan, Saint Vincent, Seychelles.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.1. Credit risk [continued]

#### 36.1.3. Loan portfolio by countries [continued]

| Country | 2020 Loans at fair value | 2019 |
|---|---|---|
| Hungary | 798,981 | 493,208 |
| Bosnia-Herzegovina | 2,535 | 2,581 |
| Croatia | 1,089 | 489 |
| **Total** | **802,605** | **496,278** |

#### 36.1.4. Collateral

The values of collateral held by the Group by type are as follows (**total collateral**). The collateral covers loans as well as off-balance sheet exposures.

| Types of collateral | 2020 | 2019 |
|---|---|---|
| Mortgages | 12,346,773 | 11,113,017 |
| Guarantees of state or organizations owned by state | 731,529 | 486,112 |
| Assignments (revenue or other receivables) | 486,670 | 447,820 |
| Guarantees and warranties | 178,139 | 423,035 |
| Cash deposits | 163,489 | 130,913 |
| Securities | 156,857 | 186,154 |
| Other | 2,159,894 | 2,216,505 |
| **Total** | **16,223,351** | **15,003,556** |

The values of collateral held by the Group by type are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

| Types of collateral | 2020 | 2019 |
|---|---|---|
| Mortgages | 5,902,854 | 5,184,997 |
| Guarantees and warranties | 984,532 | 303,711 |
| Assignments (revenue or other receivables) | 344,716 | 306,863 |
| Guarantees of state or organizations owned by state | 190,700 | 439,148 |
| Securities | 115,269 | 137,613 |
| Cash deposits | 67,158 | 70,910 |
| Other | 1,244,771 | 1,331,823 |
| **Total** | **8,850,000** | **7,775,065** |

The coverage level of the loan portfolio (total collateral) decreased by 3.76% but the coverage level to the extent of the exposures increased by 0.58% as at 31 December 2020.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**36.1.5. Restructured loans**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Gross portfolio | Loss allowance | Gross portfolio | Loss allowance |
| Loans to medium and large corporations | 58,271 | (12,260) | 22,418 | 3,948 |
| Retail consumer loans | 31,108 | (14,714) | 16,344 | 3,748 |
| Retail mortgage loans | 15,159 | (2,754) | 16,564 | 1,218 |
| Loans to micro and small enterprises | 11,782 | (1,237) | 9,344 | 1,728 |
| Municipal | 41 | (16) | 9 | 3 |
| Other loans | 4,412 | (791) | 305 | 32 |
| **Total** | **120,773** | **(31,772)** | **64,984** | **10,677** |

The forborne definition used by the Group is based on EBA (EU) 2015/227 regulation.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**36.1.6. Financial instruments by rating categories**[1]

**Securities held for trading as at fair value through profit or loss as at 31 December 2020**

| | Aaa | A2 | A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | B1 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | - | - | - | 9,138 | 2,155 | 5,734 | 7,247 | - | 13,762 | - | - | **38,036** |
| Discounted Treasury bills | - | - | - | - | - | 1,233 | - | - | 11,428 | - | 60 | **12,721** |
| Equity instruments and fund units | 535 | 36 | 33 | 45 | 7 | 36 | - | 7 | - | 5 | 3,036 | **3,740** |
| Other interest bearing securities | - | - | 495 | - | - | 998 | - | - | - | - | 582 | **2,075** |
| **Total** | **535** | **36** | **528** | **9,183** | **2,162** | **8,001** | **7,247** | **7** | **25,190** | **5** | **3,678** | **56,572** |

**Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2020**

| | Aa3 | A1 | Baa3 | Not rated | Total |
|---|---|---|---|---|---|
| Non-trading debt instruments mandatorily at fair value through profit or loss | 2,794 | - | 1,457 | 7,263 | **11,514** |
| Non-trading equity instruments mandatorily at fair value through profit or loss | - | - | - | 46,063 | **46,063** |
| Debt securities designated at fair value through profit or loss | - | 2,235 | - | - | **2,235** |
| **Total** | **2,794** | **2,235** | **1,457** | **53,326** | **59,812** |

[1] Moody's ratings

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**36.1.6. Financial instruments by rating categories[1] [continued]**

**Securities at fair value through other comprehensive income as at 31 December 2020**

| | Aaa | Aa2 | Aa3 | A2 | A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | B1 | B3 | Caa1 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | 20,639 | 8,215 | - | 37,195 | 120,112 | 192,994 | - | 959,133 | 182,685 | - | 200,478 | 18,166 | 69,248 | 46,269 | - | **1,855,134** |
| Mortgage bonds | - | - | - | 63,577 | - | - | - | - | - | - | - | - | - | - | 24,695 | **88,272** |
| Corporate bonds | - | - | - | - | 4,815 | - | 2,336 | 39,179 | 4,997 | 979 | 12,532 | - | - | - | 16,782 | **81,620** |
| Discounted Treasury bills | - | - | - | - | - | - | - | 9,957 | 66,401 | - | - | - | - | - | - | **76,358** |
| Non-trading equity instruments | - | - | 3,875 | - | - | 47 | - | 898 | - | - | - | - | - | - | 30,505 | **35,325** |
| **Total** | **20,639** | **8,215** | **3,875** | **100,772** | **124,927** | **193,041** | **2,336** | **1,009,167** | **254,083** | **979** | **213,010** | **18,166** | **69,248** | **46,269** | **71,982** | **2,136,709** |

**Securities at amortized cost as at 31 December 2020**

| | Aa2 | A1 | A3 | Baa1 | Baa3 | Ba1 | Ba3 | B1 | B3 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | 45,975 | 10,953 | 38,987 | 38,627 | 2,310,965 | 10,874 | 4,147 | 10,174 | 74,774 | - | **2,545,476** |
| Corporate bonds | - | - | - | - | 14,619 | 10,527 | - | - | - | 49,486 | **74,632** |
| Discounted Treasury bills | - | - | - | - | - | - | - | - | 10,469 | - | **10,469** |
| **Total** | **45,975** | **10,953** | **38,987** | **38,627** | **2,325,584** | **21,401** | **4,147** | **10,174** | **85,243** | **49,486** | **2,630,577** |

[1] Moody's ratings

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**36.1.6. Financial instruments by rating categories[1] [continued]**

**Securities held for trading as at fair value through profit or loss as at 31 December 2019**

| | Aaa | Aa3 | A1 | A2 | A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | - | - | - | - | - | - | 30,070 | 23,715 | - | 11,211 | 6,198 | - | **71,194** |
| Equity instruments and fund units | - | 27 | 41 | 52 | 18 | 30 | 6 | 18 | - | - | 7 | 877 | **1,076** |
| Discounted Treasury bills | - | - | - | - | - | - | - | 12 | - | - | 38 | - | **50** |
| Other interest bearing securities | 123 | - | - | - | 602 | - | 8,807 | 5,377 | 1,404 | 3,078 | - | 821 | **20,212** |
| Other non-interest bearing securities | - | - | - | - | - | - | - | - | - | - | - | 7,516 | **7,516** |
| **Total** | **123** | **27** | **41** | **52** | **620** | **30** | **38,883** | **29,122** | **1,404** | **14,289** | **6,243** | **9,214** | **100,048** |

**Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2019**

| | Baa1 | Baa2 | Baa3 | Ba2 | Not rated | Total |
|---|---|---|---|---|---|---|
| Non-trading debt instruments mandatorily at fair value through profit or loss | - | - | 866 | - | 3,536 | **4,402** |
| Non-trading equity instruments mandatorily at fair value through profit or loss | 8,204 | 461 | - | - | 26,250 | **34,915** |
| Debt securities designated at fair value through profit or loss | - | - | - | 2,001 | - | **2,001** |
| **Total** | **8,204** | **461** | **866** | **2,001** | **29,786** | **41,318** |

[1] Moody's ratings

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.1. Credit risk [continued]**

**36.1.6. Financial instruments by rating categories[1] [continued]**

**Securities at fair value through other comprehensive income as at 31 December 2019**

| | Aaa | Aa2 | Aa3 | A2 | A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | B1 | Caa1 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | 12,213 | 7,103 | - | 38,730 | 6,536 | 114,296 | 180,974 | 1,013,472 | - | 137,353 | 156,000 | 60,930 | 45,005 | - | **1,772,612** |
| Discounted Treasury bills | - | - | - | - | - | - | - | 339,398 | - | 104,292 | - | - | - | - | **443,690** |
| Mortgage bonds | - | - | - | - | - | 65,086 | - | 7,841 | - | - | - | - | - | 24,341 | **97,268** |
| Corporate bonds | - | - | - | - | 4,700 | - | 3,529 | 34,900 | 4,950 | 892 | - | - | - | 24,091 | **73,062** |
| Non-trading equity instruments | - | - | 6,370 | - | - | - | - | 1,139 | - | - | - | - | - | 32,638 | **40,147** |
| **Total** | **12,213** | **7,103** | **6,370** | **38,730** | **11,236** | **179,382** | **184,503** | **1,396,750** | **4,950** | **242,537** | **156,000** | **60,930** | **45,005** | **81,070** | **2,426,779** |

**Securities at amortized cost as at 31 December 2019**

| | Aa2 | Baa1 | Baa3 | Ba2 | Ba3 | B1 | B3 | Caa1 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Government bonds | 41,010 | 42,454 | 1,722,028 | 1,444 | 5,520 | 26,442 | 5,218 | 89,721 | - | **1,933,837** |
| Corporate bonds | - | - | - | 9,975 | - | - | - | - | 12,744 | **22,719** |
| Mortgage bonds | - | - | 7,739 | - | - | - | - | - | - | **7,739** |
| Discounted Treasury bills | - | - | - | - | - | - | 6,516 | - | - | **6,516** |
| **Total** | **41,010** | **42,454** | **1,729,767** | **11,419** | **5,520** | **26,442** | **11,734** | **89,721** | **12,744** | **1,970,811** |

[1] Moody's ratings

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.2. Maturity analysis of assets, liabilities and liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH.

The essential aspect of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Group considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

In line with the Group's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Group must keep high quality liquidity reserves which means it can fulfill all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided in two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at a Group level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is high. There were no material changes in the liquidity risk management process for the year ended 31 December 2020.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.2. Maturity analysis of assets, liabilities and liquidity risk [continued]

| 2020 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2,370,130 | 36 | 41,471 | 20,675 | - | 2,432,312 |
| Placements with other banks, net of loss allowance for placements | 902,977 | 77,646 | 134,780 | 34,502 | 635 | 1,150,540 |
| Repo receivables | 191,143 | - | - | - | - | 191,143 |
| Trading securities at fair value through profit or loss | 14,546 | 16,163 | 15,093 | 8,032 | 777 | 54,611 |
| Non-trading instruments mandatorily at fair value through profit or loss | 28 | - | - | 9,590 | 42,879 | 52,497 |
| Debt securities designated at fair value through profit or loss | 2,235 | - | - | - | - | 2,235 |
| Securities at fair value through other comprehensive income | 136,746 | 278,017 | 984,596 | 644,612 | 31,688 | 2,075,659 |
| Securities at amortized cost | 121,993 | 47,251 | 1,577,822 | 819,600 | - | 2,566,666 |
| Loans at amortized cost | 1,720,314 | 2,130,394 | 5,190,401 | 4,219,165 | - | 13,260,274 |
| Finance lease receivable | 127,856 | 274,143 | 659,682 | 42,439 | - | 1,104,120 |
| Loans measured at fair value through profit or loss | 24,352 | 25,193 | 159,934 | 607,274 | - | 816,753 |
| Associates and other investments | - | - | - | - | 58,307 | 58,307 |
| Other financial assets [1] | 134,672 | 3,520 | 4,551 | 1,902 | 14,376 | 159,021 |
| **TOTAL ASSETS** | **5,746,992** | **2,852,363** | **8,768,330** | **6,407,791** | **148,662** | **23,924,138** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 165,619 | 86,991 | 695,707 | 254,897 | - | 1,203,214 |
| Repo liabilities | 8,379 | - | 109,612 | - | - | 117,991 |
| Financial liabilities designated at fair value through profit or loss | 3,159 | 1,421 | 8,350 | 21,201 | - | 34,131 |
| Deposits from customers | 15,065,456 | 2,300,365 | 305,074 | 221,028 | - | 17,891,923 |
| Liabilities from issued securities | 1,971 | 130,445 | 269,133 | 65,841 | - | 467,390 |
| Leasing liabilities | 2,859 | 8,163 | 27,776 | 11,169 | - | 49,967 |
| Other financial liabilities [1] | 374,525 | 19,447 | 3,239 | 89 | 10,496 | 407,796 |
| Subordinated bonds and loans | 2,843 | - | 6,838 | 267,083 | - | 276,764 |
| **TOTAL LIABILITIES** | **15,624,811** | **2,546,832** | **1,425,729** | **841,308** | **10,496** | **20,449,176** |
| **NET POSITION** | **(9,877,819)[2]** | **305,531** | **7,342,601** | **5,566,483** | **138,166** | **3,474,962** |

[1] Without derivative financial instruments

[2] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has appropriate liquidity reserves as maintenance and management of liquidity risk.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.2. Maturity analysis of assets, liabilities and liquidity risk [continued]**

| 2020 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Receivables from derivative financial instruments held for trading | 594,663 | 3,080,660 | 532,012 | 246,922 | - | 4,454,257 |
| Liabilities from derivative financial instruments held for trading | (473,510) | (3,302,801) | (441,330) | (200,525) | (31) | (4,418,197) |
| ***Net position of financial instruments held for trading*** | **121,153** | **(222,141)** | **90,682** | **46,397** | **(31)** | **36,060** |
| Receivables from derivative financial instruments designated as hedge accounting | 186 | 8,082 | 169,339 | 173,109 | - | 350,716 |
| Liabilities from derivative financial instruments designated as hedge accounting | (41,382) | (118,914) | (468,378) | (88,720) | - | (717,394) |
| ***Net position of financial instruments designated as hedge accounting*** | **(41,196)** | **(110,832)** | **(299,039)** | **84,389** | **-** | **(366,678)** |
| **Net position of derivative financial instruments total** | **79,957** | **(332,973)** | **(208,357)** | **130,786** | **(31)** | **(330,618)** |
| Commitments to extend credit | 2,375,279 | 609,431 | 350,195 | 85,813 | - | 3,420,718 |
| Bank guarantees | 225,440 | 280,625 | 416,293 | 137,739 | 99,602 | 1,159,699 |
| Confirmed letters of credit | 13,670 | 8,916 | 1,476 | 11,377 | 276 | 35,715 |
| Factoring loan commitment | 305,269 | - | - | - | - | 305,269 |
| **Off-balance sheet commitments** | **2,919,658** | **898,972** | **767,964** | **234,929** | **99,878** | **4,921,401** |

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.2. Maturity analysis of assets, liabilities and liquidity risk [continued]**

| 2019 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 1,671,732 | 19,884 | 92,762 | - | - | 1,784,378 |
| Placements with other banks, net of loss allowance for placements | 151,893 | 65,792 | 110,150 | 16,206 | 1,257 | 345,298 |
| Repo receivables | 63,728 | 3,491 | - | - | - | 67,219 |
| Trading securities at fair value through profit or loss | 10,398 | 13,875 | 53,442 | 13,277 | 3,203 | 94,195 |
| Non-trading instruments mandatorily at fair value through profit or loss | 227 | - | 3,309 | 10,935 | 19,920 | 34,391 |
| Debt securities designated at fair value through profit or loss | - | - | 2,001 | - | - | 2,001 |
| Securities at fair value through other comprehensive income | 327,488 | 572,117 | 952,654 | 486,814 | 40,186 | 2,379,259 |
| Securities at amortized cost | 143,579 | 124,320 | 1,097,138 | 530,139 | - | 1,895,176 |
| Loans at amortized cost | 1,707,326 | 2,297,158 | 4,176,950 | 3,583,573 | 29,721 | 11,794,728 |
| Finance lease receivable | 99,876 | 246,072 | 624,206 | 37,250 | - | 1,007,404 |
| Loans measured at fair value through profit or loss | 6,602 | 20,160 | 113,724 | 358,665 | - | 499,151 |
| Associates and other investments | - | - | - | - | 29,638 | 29,638 |
| Other financial assets [1] | 109,999 | 3,826 | 3,233 | 405 | 18,748 | 136,211 |
| **TOTAL ASSETS** | **4,292,848** | **3,366,695** | **7,229,569** | **5,037,264** | **142,673** | **20,069,049** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 285,246 | 61,745 | 334,553 | 143,979 | - | 825,523 |
| Repo liabilities | 488 | - | - | - | - | 488 |
| Financial liabilities designated at fair value through profit or loss | 677 | 1,928 | 11,606 | 16,651 | - | 30,862 |
| Deposits from customers | 12,372,360 | 1,301,904 | 1,150,368 | 356,471 | - | 15,181,103 |
| Liabilities from issued securities | 1,850 | 24,902 | 368,266 | 104 | - | 395,122 |
| Leasing liabilities | 2,210 | 7,647 | 30,540 | 14,087 | 5 | 54,489 |
| Other financial liabilities [1] | 310,060 | 13,998 | 4,246 | 23 | 9,693 | 338,020 |
| Subordinated bonds and loans | 2,695 | - | - | 249,532 | - | 252,227 |
| **TOTAL LIABILITIES** | **12,975,586** | **1,412,124** | **1,899,579** | **780,847** | **9,698** | **17,077,834** |
| **NET POSITION** | **(8,682,738)[2]** | **1,954,571** | **5,329,990** | **4,256,417** | **132,975** | **2,991,215** |

[1] Without derivative financial instruments

[2] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has appropriate liquidity reserves as maintenance and management of liquidity risk.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.2. Maturity analysis of assets, liabilities and liquidity risk [continued]**

| 2019 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Receivables from derivative financial instruments held for trading | 2,010,040 | 1,583,020 | 698,897 | 441,348 | - | 4,733,305 |
| Liabilities from derivative financial instruments held for trading | (2,177,179) | (1,255,660) | (776,359) | (352,566) | (234) | (4,561,998) |
| ***Net position of financial instruments held for trading*** | **(167,139)** | **327,360** | **(77,462)** | **88,782** | **(234)** | **171,307** |
| Receivables from derivative financial instruments designated as hedge accounting | 2,253 | 94,227 | 151,825 | 156,010 | - | 404,315 |
| Liabilities from derivative financial instruments designated as hedge accounting | (8,737) | (250,345) | (231,794) | (76,210) | - | (567,086) |
| ***Net position of financial instruments designated as hedge accounting*** | **(6,484)** | **(156,118)** | **(79,969)** | **79,800** | **-** | **(162,771)** |
| **Net position of derivative financial instruments total** | **(173,623)** | **171,242** | **(157,431)** | **168,582** | **(234)** | **8,536** |
| | | | | | | |
| Commitments to extend credit | 2,240,364 | 337,644 | 351,136 | 92,511 | 5,457 | 3,027,112 |
| Bank guarantees | 164,575 | 281,387 | 259,246 | 145,286 | 116,155 | 966,649 |
| Confirmed letters of credit | 12,587 | 5,887 | 2,147 | 7,433 | 5,242 | 33,296 |
| Factoring loan commitment | 228,145 | - | - | - | - | 228,145 |
| **Off-balance sheet commitments** | **2,645,671** | **624,918** | **612,529** | **245,230** | **126,854** | **4,255,202** |

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.3. Net foreign currency position and foreign currency risk

**As at 31 December 2020**

| | USD | EUR | CHF | Other | Total |
|---|---|---|---|---|---|
| Assets | 717,819 | 7,003,090 | 73,344 | 6,435,309 | 14,229,562 |
| Liabilities | (878,916) | (5,926,666) | (87,551) | (5,195,693) | (12,088,826) |
| Derivative financial instruments | 259,993 | (921,666) | 32,905 | (147,436) | (776,204) |
| **Net position** | **98,896** | **154,758** | **18,698** | **1,092,180** | **1,364,532** |

**As at 31 December 2019**

| | USD | EUR | CHF | Other | Total |
|---|---|---|---|---|---|
| Assets | 599,946 | 5,532,766 | 72,366 | 5,701,836 | 11,906,914 |
| Liabilities | (708,409) | (4,808,619) | (75,407) | (4,639,952) | (10,232,387) |
| Derivative financial instruments | 182,049 | (735,690) | (755) | (116,723) | (671,119) |
| **Net position** | **73,586** | **(11,543)** | **(3,796)** | **945,161** | **1,003,408** |

The table above provides an analysis of the main foreign currency exposures of the Group that arise in the non-functional currency of the entities constituting the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB, BGN, ALL and MDL. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group. The derivative financial instruments detailed in the table above are presented at fair value.

### 36.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.4. Interest rate risk management [continued]

### As at 31 December 2020

| ASSETS | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Cash, amounts due from banks and balances with the National Banks** | **150,707** | **777,104** | **1** | **4,647** | **2,008** | **14,793** | **-** | **9,277** | **-** | **21,056** | **168,850** | **1,283,869** | **321,566** | **2,110,746** | **2,432,312** |
| fixed rate | 149,701 | 679,634 | - | 4,647 | 2,008 | 14,793 | - | 9,277 | - | 21,056 | - | - | 151,709 | 729,407 | 881,116 |
| variable rate | 1,006 | 97,470 | 1 | - | - | - | - | - | - | - | - | - | 1,007 | 97,470 | 98,477 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 168,850 | 1,283,869 | 168,850 | 1,283,869 | 1,452,719 |
| **Placements with other banks, net of allowance for placements losses** | **240,397** | **339,537** | **104** | **103,038** | **665** | **194,919** | **2,003** | **5** | **124,478** | **7,633** | **19,253** | **116,711** | **386,900** | **761,843** | **1,148,743** |
| fixed rate | 220,155 | 197,680 | 104 | 102,080 | 665 | 194,919 | 2,003 | 5 | - | 5,750 | - | - | 222,927 | 500,434 | 723,361 |
| variable rate | 20,242 | 141,857 | - | 958 | - | - | - | - | 124,478 | 1,883 | - | - | 144,720 | 144,698 | 289,418 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 19,253 | 116,711 | 19,253 | 116,711 | 135,964 |
| **Repo receivables** | **183,364** | **7,485** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **183,364** | **7,485** | **190,849** |
| fixed rate | 183,364 | 7,485 | - | - | - | - | - | - | - | - | - | - | 183,364 | 7,485 | 190,849 |
| variable rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Trading instruments at fair value through profit or loss** | **1,261** | **9,247** | **287** | **9,013** | **614** | **14,644** | **1,280** | **2,753** | **5,270** | **8,463** | **2,473** | **1,267** | **11,185** | **45,387** | **56,572** |
| fixed rate | 355 | 8,721 | 287 | 9,013 | 614 | 14,644 | 1,280 | 2,753 | 5,254 | 8,463 | - | - | 7,790 | 43,594 | 51,384 |
| variable rate | 906 | 526 | - | - | - | - | - | - | 16 | - | - | - | 922 | 526 | 1,448 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 2,473 | 1,267 | 2,473 | 1,267 | 3,740 |
| **Non-trading instruments mandatorily at fair value through profit or loss** | **-** | **4,487** | **-** | **1,006** | **-** | **-** | **-** | **-** | **-** | **-** | **30,674** | **21,410** | **30,674** | **26,903** | **57,577** |
| fixed rate | - | 4,459 | - | 1,006 | - | - | - | - | - | - | - | - | - | 5,465 | 5,465 |
| variable rate | - | 28 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 30,674 | 21,410 | 30,674 | 21,410 | 52,084 |
| **Financial assets designated at fair value through profit or loss** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,235** | **-** | **-** | **-** | **2,235** | **2,235** |
| fixed rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable rate | - | - | - | - | - | - | - | - | - | 2,235 | - | - | - | 2,235 | 2,235 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Securities at fair value through other comprehensive income** | **47,073** | **11,706** | **673** | **95,897** | **118,558** | **183,940** | **49,095** | **200,651** | **567,675** | **826,116** | **536** | **34,789** | **783,610** | **1,353,099** | **2,136,709** |
| fixed rate | 600 | 11,706 | 673 | 83,363 | 117,558 | 183,940 | 49,095 | 200,631 | 567,675 | 819,295 | - | - | 735,601 | 1,298,935 | 2,034,536 |
| variable rate | 46,473 | - | - | 12,534 | 1,000 | - | - | 20 | - | 6,821 | - | - | 47,473 | 19,375 | 66,848 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 536 | 34,789 | 536 | 34,789 | 35,325 |
| **Securities at amortized cost** | **-** | **79,401** | **-** | **21,055** | **37,771** | **4,574** | **398,158** | **40,066** | **1,844,129** | **199,766** | **-** | **-** | **2,280,058** | **344,862** | **2,624,920** |
| fixed rate | - | 79,401 | - | 21,055 | 37,771 | 4,574 | 398,158 | 40,066 | 1,837,731 | 199,766 | - | - | 2,273,660 | 344,862 | 2,618,522 |
| variable rate | - | - | - | - | - | - | - | - | 6,398 | - | - | - | 6,398 | - | 6,398 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Loans at amortized cost, net of allowance for loan losses** | **656,665** | **4,758,061** | **340,558** | **1,115,958** | **52,487** | **998,326** | **49,217** | **349,978** | **1,723,813** | **1,442,688** | **125,865** | **61,226** | **2,948,605** | **8,726,237** | **11,674,842** |
| fixed rate | 68,714 | 854,962 | 2,048 | 264,431 | 13,026 | 488,106 | 36,198 | 288,272 | 772,219 | 806,553 | - | - | 892,205 | 2,702,324 | 3,594,529 |
| variable rate | 587,951 | 3,903,099 | 338,510 | 851,527 | 39,461 | 510,220 | 13,019 | 61,706 | 951,594 | 636,135 | - | - | 1,930,535 | 5,962,687 | 7,893,222 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 125,865 | 61,226 | 125,865 | 61,226 | 187,091 |
| **Finance lease receivables** | **285,219** | **281,683** | **34,926** | **134,848** | **18** | **134,266** | **-** | **69,096** | **5,685** | **103,954** | **-** | **1,445** | **325,848** | **725,292** | **1,051,140** |
| fixed rate | 167,083 | 113,778 | 8,141 | 6,117 | 18 | 26,854 | - | 25,036 | - | 41,005 | - | - | 175,242 | 212,790 | 388,032 |
| variable rate | 118,136 | 167,905 | 26,785 | 128,731 | - | 107,412 | - | 44,060 | 5,685 | 62,949 | - | - | 150,606 | 511,057 | 661,663 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 1,445 | - | 1,445 | 1,445 |
| **Loans mandatorily at fair value through profit or** | **24,871** | **1,159** | **68** | **141** | **498** | **634** | **710** | **218** | **772,833** | **1,473** | **-** | **-** | **798,980** | **3,625** | **802,605** |
| fixed rate | - | 70 | - | 141 | - | 634 | - | 218 | - | 1,473 | - | - | - | 2,536 | 2,536 |
| variable rate | 24,871 | 1,089 | 68 | - | 498 | - | 710 | - | 772,833 | - | - | - | 798,980 | 1,089 | 800,069 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Fair value adjustment of derivative financial instruments** | **945,704** | **699,341** | **880,168** | **378,971** | **557,280** | **416,304** | **26,776** | **5,084** | **40,243** | **97,805** | **742,345** | **245,973** | **3,192,516** | **1,843,478** | **5,035,994** |
| fixed rate | 929,702 | 561,503 | 658,754 | 183,337 | 559,388 | 387,848 | 26,799 | 5,084 | 40,490 | 97,487 | - | - | 2,215,133 | 1,235,259 | 3,450,392 |
| variable rate | 16,002 | 137,838 | 221,414 | 195,634 | (2,108) | 28,456 | (23) | - | (247) | 318 | - | - | 235,038 | 362,246 | 597,284 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 742,345 | 245,973 | 742,345 | 245,973 | 988,318 |
| **Other financial assets** | **10,221** | **16,335** | **155** | **16** | **-** | **270** | **-** | **-** | **-** | **47** | **50,991** | **62,527** | **61,367** | **79,195** | **140,562** |
| fixed rate | 10,221 | 10,982 | - | 14 | - | 19 | - | - | - | - | - | - | 10,221 | 11,015 | 21,236 |
| variable rate | - | 5,353 | 155 | 2 | - | 251 | - | - | - | 47 | - | - | 155 | 5,653 | 5,808 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 50,991 | 62,527 | 50,991 | 62,527 | 113,518 |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.4. Interest rate risk management [continued]

### As at 31 December 2020 [continued]

| LIABILITIES | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks** | **75,420** | **72,092** | **12,005** | **109,125** | **3,741** | **78,752** | **39,270** | **13,770** | **742,198** | **27,016** | **114** | **11,812** | **872,748** | **312,567** | **1,185,315** |
| fixed rate | 6,185 | 41,403 | 12,005 | 78,467 | 3,422 | 17,551 | 39,270 | 13,770 | 735,267 | 24,708 | - | - | 796,149 | 175,899 | 972,048 |
| variable rate | 69,235 | 30,689 | - | 30,658 | 319 | 61,201 | - | - | 6,931 | 2,308 | - | - | 76,485 | 124,856 | 201,341 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 114 | 11,812 | 114 | 11,812 | 11,926 |
| **Repo liabilities** | **-** | **2,019** | **-** | **6,360** | **-** | **109,612** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **117,991** | **117,991** |
| fixed rate | - | 2,019 | - | 6,360 | - | - | - | - | - | - | - | - | - | 8,379 | 8,379 |
| variable rate | - | - | - | - | - | 109,612 | - | - | - | - | - | - | - | 109,612 | 109,612 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Financial liabilities designated at fair value through profit or loss** | **25,902** | **-** | **-** | **-** | **5,994** | **-** | **-** | **-** | **-** | **2,235** | **-** | **-** | **31,896** | **2,235** | **34,131** |
| fixed rate | 79 | - | - | - | 5,994 | - | - | - | - | - | - | - | 6,073 | - | 6,073 |
| variable rate | 25,823 | - | - | - | - | - | - | - | - | 2,235 | - | - | 25,823 | 2,235 | 28,058 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Deposits from customers** | **6,143,610** | **8,390,678** | **101,521** | **633,365** | **142,203** | **880,099** | **68,741** | **171,992** | **239,805** | **502,668** | **15,169** | **601,012** | **6,711,049** | **11,179,814** | **17,890,863** |
| fixed rate | 413,308 | 2,873,541 | 101,521 | 633,233 | 142,203 | 879,857 | 68,741 | 171,989 | 239,805 | 502,658 | - | - | 965,578 | 5,061,278 | 6,026,856 |
| variable rate | 5,730,302 | 5,517,137 | - | 132 | - | 242 | - | 3 | - | 10 | - | - | 5,730,302 | 5,517,524 | 11,247,826 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 15,169 | 601,012 | 15,169 | 601,012 | 616,181 |
| **Liabilities from issued securities** | **3,090** | **221** | **11,691** | **414** | **223,762** | **721** | **46,451** | **-** | **177,807** | **46** | **-** | **-** | **462,801** | **1,412** | **464,213** |
| fixed rate | 213 | - | - | - | 111,565 | - | 46,451 | - | 177,807 | 46 | - | - | 336,036 | 46 | 336,082 |
| variable rate | 2,877 | 221 | 11,691 | 414 | 112,197 | 721 | - | - | - | - | - | - | 126,765 | 1,356 | 128,121 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 10 | - | 10 | 10 |
| **Fair value adjustment of derivative financial instruments** | **1,264,893** | **385,359** | **1,035,006** | **208,880** | **479,592** | **492,998** | **9,260** | **24,904** | **48,555** | **90,112** | **732,937** | **255,219** | **3,570,243** | **1,457,472** | **5,027,715** |
| fixed rate | 1,111,465 | 376,893 | 648,487 | 189,185 | 481,603 | 469,867 | 9,321 | 24,904 | 48,802 | 89,931 | - | - | 2,299,678 | 1,150,780 | 3,450,458 |
| variable rate | 153,428 | 8,466 | 386,519 | 19,695 | (2,011) | 23,131 | (61) | - | (247) | 181 | - | - | 537,628 | 51,473 | 589,101 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 732,937 | 255,219 | 732,937 | 255,219 | 988,156 |
| **Leasing liabilities** | **1,131** | **6,748** | **465** | **739** | **536** | **6,823** | **467** | **5,388** | **1,213** | **19,644** | **-** | **5,297** | **3,812** | **44,639** | **48,451** |
| fixed rate | 1,085 | 6,572 | 401 | 322 | 536 | 4,911 | 467 | 4,219 | 433 | 18,310 | - | - | 2,922 | 34,334 | 37,256 |
| variable rate | 46 | 176 | 64 | 417 | - | 1,912 | - | 1,169 | 780 | 1,334 | - | - | 890 | 5,008 | 5,898 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 5,297 | - | 5,297 | 5,297 |
| **Other financial liabilities** | **4,091** | **30,795** | **512** | **234** | **-** | **333** | **-** | **417** | **-** | **255** | **261,223** | **92,042** | **265,826** | **124,076** | **389,902** |
| fixed rate | 4,072 | 30,762 | - | 228 | - | 148 | - | 417 | - | 87 | - | - | 4,072 | 31,642 | 35,714 |
| variable rate | 19 | 33 | 512 | 6 | - | 185 | - | - | - | 168 | - | - | 531 | 392 | 923 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 261,223 | 92,042 | 261,223 | 92,042 | 353,265 |
| **Subordinated bonds and loans** | **-** | **-** | **-** | **84,833** | **-** | **184,090** | **-** | **-** | **-** | **5,781** | **-** | **-** | **-** | **274,704** | **274,704** |
| fixed rate | - | - | - | - | - | - | - | - | - | 5,684 | - | - | - | 5,684 | 5,684 |
| variable rate | - | - | - | 84,833 | - | 184,090 | - | - | - | 97 | - | - | - | 269,020 | 269,020 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net position** | **(4,972,655)** | **(1,902,366)** | **95,740** | **820,640** | **(85,929)** | **209,242** | **363,050** | **460,657** | **3,874,548** | **2,063,479** | **131,544** | **863,825** | **(593,702)** | **2,515,477** | **1,921,775** |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.4. Interest rate risk management [continued]

### As at 31 December 2019

| ASSETS | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Cash, amounts due from banks and balances with the National Banks** | **41,319** | **576,425** | **2,106** | **7,513** | **-** | **18,818** | **-** | **8,690** | **-** | **15,205** | **222,042** | **892,260** | **265,467** | **1,518,911** | **1,784,378** |
| fixed rate | 40,555 | 534,313 | 2,102 | 7,513 | - | 18,818 | - | 8,690 | - | 15,205 | - | - | 42,657 | 584,539 | 627,196 |
| variable rate | 764 | 42,112 | 4 | - | - | - | - | - | - | - | - | - | 768 | 42,112 | 42,880 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 222,042 | 892,260 | 222,042 | 892,260 | 1,114,302 |
| **Placements with other banks, net of allowance for placements losses** | **4,385** | **89,457** | **14,823** | **34,598** | **1,988** | **30,258** | **98,889** | **-** | **-** | **7,076** | **17,603** | **43,845** | **137,688** | **205,234** | **342,922** |
| fixed rate | 4,385 | 58,425 | 14,823 | 34,597 | 903 | 22,722 | 98,889 | - | - | 6,254 | - | - | 119,000 | 121,998 | 240,998 |
| variable rate | - | 31,032 | - | 1 | 1,085 | 7,536 | - | - | - | 822 | - | - | 1,085 | 39,391 | 40,476 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 17,603 | 43,845 | 17,603 | 43,845 | 61,448 |
| **Repo receivables** | **-** | **17,427** | **25,498** | **-** | **-** | **3,444** | **-** | **-** | **19,457** | **-** | **528** | **803** | **45,483** | **21,674** | **67,157** |
| fixed rate | - | 17,427 | 25,498 | - | - | 3,444 | - | - | 19,457 | - | - | - | 44,955 | 20,871 | 65,826 |
| variable rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 528 | 803 | 528 | 803 | 1,331 |
| **Trading instruments at fair value through profit or loss** | **650** | **3,942** | **124** | **5,929** | **4,497** | **12,483** | **4,400** | **21,646** | **10,571** | **27,214** | **7,542** | **1,050** | **27,784** | **72,264** | **100,048** |
| fixed rate | 18 | 3,927 | 1 | 5,529 | 4,497 | 12,483 | 4,400 | 21,646 | 10,571 | 27,214 | - | - | 19,487 | 70,799 | 90,286 |
| variable rate | 632 | 15 | 123 | 400 | - | - | - | - | - | - | - | - | 755 | 415 | 1,170 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 7,542 | 1,050 | 7,542 | 1,050 | 8,592 |
| **Non-trading instruments mandatorily at fair value through profit or loss** | **-** | **-** | **-** | **25** | **-** | **866** | **-** | **-** | **-** | **3,511** | **27,810** | **7,105** | **27,810** | **11,507** | **39,317** |
| fixed rate | - | - | - | - | - | 866 | - | - | - | 3,511 | - | - | - | 4,377 | 4,377 |
| variable rate | - | - | - | 25 | - | - | - | - | - | - | - | - | - | 25 | 25 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 27,810 | 7,105 | 27,810 | 7,105 | 34,915 |
| **Financial assets designated at fair value through profit or loss** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,001** | **-** | **2,001** | **2,001** |
| fixed rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 2,001 | - | 2,001 | 2,001 |
| **Securities at fair value through other comprehensive income** | **89,175** | **51,659** | **138,245** | **68,746** | **428,028** | **171,582** | **94,464** | **213,344** | **401,659** | **713,667** | **867** | **55,343** | **1,152,438** | **1,274,341** | **2,426,779** |
| fixed rate | 55,863 | 51,659 | 123,562 | 68,197 | 413,278 | 171,034 | 93,464 | 212,521 | 401,659 | 713,667 | - | - | 1,087,826 | 1,217,078 | 2,304,904 |
| variable rate | 33,312 | - | 14,683 | 549 | 14,750 | 548 | 1,000 | 823 | - | - | - | - | 63,745 | 1,920 | 65,665 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 867 | 55,343 | 867 | 55,343 | 56,210 |
| **Securities at amortized cost** | **-** | **101,371** | **-** | **19,739** | **111,029** | **12,506** | **38,195** | **43,189** | **1,553,408** | **88,635** | **-** | **-** | **1,702,632** | **265,440** | **1,968,072** |
| fixed rate | - | 101,371 | - | 19,739 | 111,029 | 12,506 | 38,195 | 43,189 | 1,553,408 | 88,635 | - | - | 1,702,632 | 265,440 | 1,968,072 |
| variable rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Loans at amortized cost, net of allowance for loan losses** | **534,956** | **3,767,934** | **596,440** | **1,190,169** | **440,588** | **1,277,264** | **90,627** | **345,604** | **838,117** | **1,136,245** | **144,221** | **51,356** | **2,644,949** | **7,768,572** | **10,413,521** |
| fixed rate | 6,228 | 755,305 | 2,307 | 320,082 | 14,141 | 524,853 | 28,983 | 299,680 | 1,066,868 | 789,762 | - | - | 1,118,527 | 2,689,682 | 3,808,209 |
| variable rate | 528,728 | 3,012,629 | 594,133 | 870,087 | 426,447 | 752,411 | 61,644 | 45,924 | -228,751 | 346,483 | - | - | 1,382,201 | 5,027,534 | 6,409,735 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 144,221 | 51,356 | 144,221 | 51,356 | 195,577 |
| **Finance lease receivables** | **135,777** | **232,181** | **29,361** | **134,811** | **3,663** | **132,638** | **13,177** | **74,996** | **111,789** | **99,504** | **1** | **1,365** | **293,768** | **675,495** | **969,263** |
| fixed rate | 2,767 | 92,561 | 1,018 | 5,886 | 3,663 | 23,387 | 13,177 | 30,419 | 109,188 | 45,316 | - | - | 129,813 | 197,569 | 327,382 |
| variable rate | 133,010 | 139,620 | 28,343 | 128,925 | - | 109,251 | - | 44,577 | 2,601 | 54,188 | - | - | 163,954 | 476,561 | 640,515 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 1 | 1,365 | 1 | 1,365 | 1,366 |
| **Loans mandatorily at fair value through profit or** | **30,021** | **543** | **221** | **108** | **1,508** | **487** | **924** | **316** | **460,534** | **1,616** | **-** | **-** | **493,208** | **3,070** | **496,278** |
| fixed rate | - | 54 | - | 108 | - | 487 | - | 316 | - | 1,616 | - | - | - | 2,581 | 2,581 |
| variable rate | 30,021 | 489 | 221 | - | 1,508 | - | 924 | - | 460,534 | - | - | - | 493,208 | 489 | 493,697 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Fair value adjustment of derivative financial instruments** | **966,352** | **432,710** | **847,077** | **359,143** | **765,880** | **459,987** | **15,461** | **273,274** | **20,584** | **85,850** | **167,569** | **362,920** | **2,782,923** | **1,973,884** | **4,756,807** |
| fixed rate | 930,477 | 423,788 | 697,547 | 335,985 | 766,569 | 425,038 | 15,461 | 273,274 | 20,584 | 85,850 | - | - | 2,430,638 | 1,543,935 | 3,974,573 |
| variable rate | 35,875 | 8,922 | 149,530 | 23,158 | (689) | 34,949 | - | - | - | - | - | - | 184,716 | 67,029 | 251,745 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 167,569 | 362,920 | 167,569 | 362,920 | 530,489 |
| **Other financial assets** | **16,988** | **2,343** | **94** | **367** | **-** | **5** | **-** | **3** | **-** | **1** | **48,574** | **54,678** | **65,656** | **57,397** | **123,053** |
| fixed rate | 16,859 | 2,343 | - | 331 | - | 1 | - | 3 | - | 1 | - | - | 16,859 | 2,679 | 19,538 |
| variable rate | 129 | - | 94 | 36 | - | 4 | - | - | - | - | - | - | 223 | 40 | 263 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 48,574 | 54,678 | 48,574 | 54,678 | 103,252 |

## NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 36.4. Interest rate risk management [continued]

### As at 31 December 2019 [continued]

| LIABILITIES | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks** | **265,224** | **84,798** | **2,633** | **130,754** | **5,086** | **112,533** | **1,834** | **78,312** | **103,826** | **18,079** | **19** | **9,813** | **378,622** | **434,289** | **812,911** |
| fixed rate | 212,975 | 78,022 | 2,633 | 63,143 | 5,085 | 27,300 | 1,834 | 76,875 | 103,826 | 17,715 | - | - | 326,353 | 263,055 | 589,408 |
| variable rate | 52,249 | 6,776 | - | 67,611 | 1 | 85,233 | - | 1,437 | - | 364 | - | - | 52,250 | 161,421 | 213,671 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 19 | 9,813 | 19 | 9,813 | 9,832 |
| **Repo liabilities** | **488** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **488** | **-** | **488** |
| fixed rate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable rate | 488 | - | - | - | - | - | - | - | - | - | - | - | 488 | - | 488 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Financial liabilities designated at fair value through profit or loss** | **28,862** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,000** | **28,862** | **2,000** | **30,862** |
| fixed rate | 102 | - | - | - | - | - | - | - | - | - | - | - | 102 | - | 102 |
| variable rate | 28,760 | - | - | - | - | - | - | - | - | - | - | - | 28,760 | - | 28,760 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 2,000 | - | 2,000 | 2,000 |
| **Deposits from customers** | **5,124,112** | **6,546,522** | **183,647** | **570,419** | **127,494** | **830,168** | **45,174** | **325,413** | **239,092** | **426,589** | **37,258** | **715,420** | **5,756,777** | **9,414,531** | **15,171,308** |
| fixed rate | 434,026 | 2,729,694 | 183,647 | 570,286 | 127,494 | 828,984 | 45,174 | 325,411 | 239,092 | 426,583 | - | - | 1,029,433 | 4,880,958 | 5,910,391 |
| variable rate | 4,690,086 | 3,816,828 | - | 133 | - | 1,184 | - | 2 | - | 6 | - | - | 4,690,086 | 3,818,153 | 8,508,239 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 37,258 | 715,420 | 37,258 | 715,420 | 752,678 |
| **Liabilities from issued securities** | **16,708** | **592** | **144,381** | **1,273** | **8,347** | **1,936** | **112,697** | **-** | **106,267** | **53** | **898** | **15** | **389,298** | **3,869** | **393,167** |
| fixed rate | 218 | 40 | - | 8 | 6,901 | - | 112,697 | - | 106,267 | 53 | - | - | 226,083 | 101 | 226,184 |
| variable rate | 16,490 | 552 | 144,381 | 1,265 | 1,446 | 1,936 | - | - | - | - | - | - | 162,317 | 3,753 | 166,070 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 898 | 15 | 898 | 15 | 913 |
| **Fair value adjustment of derivative financial instruments** | **1,275,341** | **129,626** | **828,476** | **357,746** | **623,403** | **588,552** | **281,358** | **8,789** | **37,297** | **72,359** | **370,245** | **167,431** | **3,416,120** | **1,324,503** | **4,740,623** |
| fixed rate | 1,224,793 | 123,378 | 687,545 | 341,726 | 623,287 | 567,367 | 281,358 | 8,789 | 37,297 | 72,148 | - | - | 2,854,280 | 1,113,408 | 3,967,688 |
| variable rate | 50,548 | 6,248 | 140,931 | 16,020 | 116 | 21,185 | - | - | - | 211 | - | - | 191,595 | 43,664 | 235,259 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 370,245 | 167,431 | 370,245 | 167,431 | 537,676 |
| **Leasing liabilities** | **1,252** | **4,951** | **126** | **1,113** | **1,120** | **7,393** | **924** | **6,082** | **5** | **24,800** | **99** | **6,329** | **3,526** | **50,668** | **54,194** |
| fixed rate | 1,252 | 4,878 | 126 | 902 | 1,120 | 6,551 | 924 | 5,026 | 5 | 21,374 | - | - | 3,427 | 38,731 | 42,158 |
| variable rate | - | 73 | - | 211 | - | 842 | - | 1,056 | - | 3,426 | - | - | - | 5,608 | 5,608 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 99 | 6,329 | 99 | 6,329 | 6,428 |
| **Other financial liabilities** | **4,920** | **171** | **575** | **1,816** | **-** | **2,039** | **-** | **255** | **-** | **503** | **230,989** | **96,752** | **236,484** | **101,536** | **338,020** |
| fixed rate | 4,177 | 136 | - | 1,816 | - | 2,039 | - | 239 | - | 503 | - | - | 4,177 | 4,733 | 8,910 |
| variable rate | 743 | 35 | 575 | - | - | - | - | 16 | - | - | - | - | 1,318 | 51 | 1,369 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 230,989 | 96,752 | 230,989 | 96,752 | 327,741 |
| **Subordinated bonds and loans** | **-** | **-** | **-** | **77,934** | **-** | **166,602** | **-** | **-** | **-** | **5,397** | **-** | **5** | **-** | **249,938** | **249,938** |
| fixed rate | - | - | - | - | - | - | - | - | - | 5,397 | - | - | - | 5,397 | 5,397 |
| variable rate | - | - | - | 77,934 | - | 166,602 | - | - | - | - | - | - | - | 244,536 | 244,536 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 5 | - | 5 | 5 |
| **Net position** | **(4,897,284)** | **(1,490,668)** | **494,151** | **680,093** | **991,731** | **411,115** | **(85,850)** | **562,211** | **2,929,632** | **1,630,744** | **(2,751)** | **474,961** | **(570,371)** | **2,268,456** | **1,698,085** |

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.5. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 36.2., 36.3. and 36.4., respectively.)

#### 36.5.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.
In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

| **Historical VaR (99%, one-day) by risk type** | **Average** | |
|---|---|---|
| | **2020** | **2019** |
| Foreign exchange | 1,530 | 479 |
| Interest rate | 146 | 172 |
| Equity instruments | 141 | 21 |
| Diversification | - | - |
| **Total VaR exposure** | **1,817** | **672** |

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 36.5.2., for interest rate risk in Note 36.5.3., and for equity price sensitivity analysis in Note 36.5.4.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.5. Market risk [continued]

#### 36.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to the rise and fall in the HUF exchange rate against EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only the residual foreign currency denominated monetary items as partially closed strategic open positions related to foreign activities.
In accordance with the Bank's decision, the subsidiaries' profit or loss measured in EUR is going to have a higher weight than measured in HUF. Thus, a decision was made about closing the former EUR -310 million strategic open position. As a result of the partial close, an open position of EUR -132 million remained in the Bank's book evaluated against profit or loss as at 31 December 2020.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| Probability | Effects to the Consolidated Statement of Profit or Loss in 3 months period | |
|---|---|---|
| | In HUF million | In HUF million |
| | 2020 | 2019 |
| 1% | (5,900) | (12,200) |
| 5% | (4,100) | (8,400) |
| 25% | (1,700) | (3,500) |
| 50% | (200) | (400) |
| 25% | 1,200 | 2,600 |
| 5% | 3,200 | 6,800 |
| 1% | 4,600 | 9,700 |

Note:
Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2020.

#### 36.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.5. Market risk [continued]**

**36.5.3. Interest rate sensitivity analysis [continued]**

The sensitivity of interest income to changes in BUBOR was analysed by assuming two interest rate path scenarios:

(1) HUF base rate and BUBOR decreases gradually by 15 bps over the next year (probable scenario)
(2) HUF base rate and BUBOR decreases gradually by 60 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2021 would be decreased by HUF 1,301 million (probable scenario) and HUF 5,732 million (alternative scenario) as a result of these simulation. A similar simulation indicated HUF 1,205 million (probable scenario) and HUF 3,060 million (alternative scenario) decrease in the Net interest income in a one year period after 1 January 2020.
This effect is counterbalanced by capital gains HUF 584 million (or probable scenario), HUF 2,329 million (for alternative scenario) as at 31 December 2020 and (HUF 223 million for probable scenario, HUF 2,670 million for alternative scenario as at 31 December 2019) on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Description** | **Effects to the net interest income (one-year period)** | **Effects to capital (Price change of government bonds at fair value through other comprehensive income)** | **Effects to the net interest income (one-year period)** | **Effects to capital (Price change of government bonds at fair value through other comprehensive income)** |
| HUF (0.1%) parallel shift | (1,809) | 389 | (1,742) | 558 |
| EUR (0.1%) parallel shift | (2,179) | - | (1,261) | - |
| USD (0.1%) parallel shift | (497) | - | (253) | - |
| **Total** | **(4,485)** | **389** | **(3,256)** | **558** |

**36.5.4. Equity price sensitivity analysis**

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

| **Description** | **2020** | **2019** |
|---|---|---|
| VaR (99%, one day, HUF million) | 141 | 21 |
| Stress test (HUF million) | (233) | (52) |

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

### 36.6. Capital management

**Capital management**

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

**Capital adequacy**

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.
The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2020 as well as in year 2019.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 17.7%, the Regulatory capital was HUF 2,669,806 million and the Total regulatory capital requirement was HUF 1,203,751 million as at 31 December 2020. The same ratios calculated as at 31 December 2019 were the following: 16.8%, HUF 2,390,688 million and HUF 1,140,976 million.

**NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**36.6. Capital management [continued]**

**Capital adequacy [continued]**

| Calculation on IFRS basis (in HUF million) | 2020 | 2019 |
|---|---|---|
| ***Core capital (Tier 1) =*** | | |
| ***Common Equity Tier 1 (CET 1)*** | ***2,316,118*** | ***2,055,106*** |
| Issued capital | 28,000 | 28,000 |
| Reserves | 2,342,166 | 2,208,519 |
| Fair value corrections | 33,991 | 49,501 |
| Other capital components | 39,204 | (33,225) |
| Non-controlling interests | 1,795 | 2,571 |
| Treasury shares | (145,939) | (60,931) |
| Goodwill and other intangible assets | (174,997) | (230,017) |
| Other adjustments | 191,898 | 90,688 |
| **Additional Tier 1 (AT1)** | | **-** |
| ***Supplementary capital (Tier 2)*** | ***353,688*** | ***335,582*** |
| Subordinated bonds and loans | 263,439 | 244,536 |
| Other issued capital components | 89,935 | 89,935 |
| Components recognized in T2 capital issued by subsidiaries | 314 | 1,111 |
| **Regulatory capital** [1] | **2,669,806** | **2,390,688** |
| Credit risk capital requirement | 1,071,163 | 1,002,390 |
| Market risk capital requirement | 19,170 | 15,905 |
| Operational risk capital requirement | 113,418 | 122,681 |
| **Total requirement regulatory capital** | **1,203,751** | **1,140,976** |
| **Surplus capital** | **1,466,055** | **1,249,712** |
| CET 1 ratio | 15.40% | 14.40% |
| Tier 1 ratio | 15.40% | 14.40% |
| **Capital adequacy ratio** | **17.70%** | **16.80%** |

**Basel III**

The components of the Common Equity Tier 1 capital (CET 1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Net Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier 2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

[1] Due to the COVID 19 pandemic, in order to strengthen the banking system, National Bank of Hungary recommended banks that dividends are neither approved, nor paid until 30 September 2021. But the potential amount of dividend is deducted from the regulatory capital due to prudential reasons (in accordance with regulation 241/2014 EU). The final amount of dividend payment depends on the decision of the Annual General Meeting and may change the capital adequacy ratios.

## NOTE 37: RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS (in HUF mn)

**Reclassification** from securities held for trading to securities at fair value through other comprehensive income:

**As at 31 December 2020**

| Date of reclassification | Reason for reclassification | Type of securities | Nominal value at reclassification | Fair value at the date of reclassification | EIR at the date of reclassification | Interest income |
|---|---|---|---|---|---|---|
| 1 September 2018 | Change in business model | Retail Hungarian government bonds | 1,069 | 1,087 | 2%-3% | 28 |

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income of which HUF 1,087 million remaining amount was presented as at 31 December 2020. The Bank has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.
In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

**Financial assets transferred but not derecognized**

| | Transferred assets | Associated liabilities | Transferred assets | Associated liabilities |
|---|---|---|---|---|
| | Carrying amount 2020 | | Carrying amount 2019 | |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt securities | 48,176 | 44,287 | 40,912 | 40,253 |
| **Total** | **48,176** | **44,287** | **40,912** | **40,253** |
| Financial assets at amortized cost | | | | |
| Debt securities | 136,316 | 119,789 | - | - |
| Loans and advances | 1,171 | - | 5,263 | 2,555 |
| **Total** | **137,487** | **119,789** | **5,263** | **2,555** |
| **Total** | **185,663** | **164,076** | **46,175** | **42,808** |

As at 31 December 2020 and 2019, the Group had obligation from repurchase agreements (repo liability) of HUF 109,612 million and HUF 111 million respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Consolidated Statement of Financial Position of the Group in the appropriate securities category. The related liability is measured at amortized cost in the Consolidated Statement of Financial Position as "Amounts due to the National Governments, to the National Banks and other banks and repo liabilities".

## NOTE 38: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

| **Contingent liabilities** | **2020** | **2019** |
|---|---|---|
| Commitments to extend credit | 3,420,718 | 3,027,112 |
| Guarantees arising from banking activities | 1,159,699 | 966,649 |
| Factoring loan commitment | 305,269 | 228,145 |
| Confirmed letters of credit | 35,715 | 33,296 |
| Other | 35,965 | - |
| **Contingent liabilities and commitments total in accordance with IFRS 9** | **4,957,366** | **4,255,202** |
| Legal disputes (disputed value) | 53,486 | 30,844 |
| Other | 22,164 | 57,151 |
| **Contingent liabilities and commitments total in accordance with IAS 37** | **75,650** | **87,995** |
| **Total** | **5,033,016** | **4,343,197** |

**Legal disputes**

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 34,894 million as at 31 December 2020 and HUF 28,650 million as at 31 December 2019, respectively. (See Note 24.)

**Commitments to extend credit, guarantees and letters of credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

**NOTE 38: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**Guarantees, payment undertakings arising from banking activities**

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency.

A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

**Derivatives**

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

## NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.
Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.
The Bank ensures the share-based payment part for the management personnel of the Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.
The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1]
The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.
At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

[1] Until the end of 2014 Board of Directors

## NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

The parameters for the share-based payment relating to years from 2015 by the Supervisory Board for periods of each year as follows:

| Year | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share |
|---|---|---|---|---|---|---|---|---|---|
| | Exercise price | Maximum earnings | | Exercise price | Maximum earnings | | Exercise price | Maximum earnings | |
| | | | | HUF per share | | | | | |
| | **for the year 2015** | | | **for the year 2016** | | | **for the year 2017** | | |
| 2016 | 4,892 | 2,500 | 6,892 | - | - | - | - | - | - |
| 2017 | 4,892 | 3,000 | 6,892 | 7,200 | 2,500 | 9,200 | - | - | - |
| 2018 | 4,892 | 3,000 | 6,892 | 7,200 | 3,000 | 9,200 | 8,064 | 3,000 | 10,064 |
| 2019 | 4,892 | 3,000 | 6,892 | 7,200 | 3,500 | 9,200 | 8,064 | 3,500 | 10,064 |
| 2020 | - | - | - | 7,200 | 4,000 | 9,200 | 8,064 | 4,000 | 10,064 |
| 2021 | - | - | - | - | - | - | 8,064 | 4,000 | 10,064 |
| 2022 | - | - | - | - | - | - | 8,064 | 4,000 | 10,064 |

| Year | Share purchasing at a discounted price | | Price of remuneration exchanged to share | Share purchasing at a discounted price | | Price of remuneration exchanged to share |
|---|---|---|---|---|---|---|
| | Exercise price | Maximum earnings | | Exercise price | Maximum earnings | |
| | | | HUF per share | | | |
| | | **for the year 2018** | | | **for the year 2019** | |
| 2019 | 10,413 | 4,000 | 12,413 | - | - | - |
| 2020 | 10,413 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2021 | 10,413 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2022 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2023 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2024 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2025 | 10,913 | 4,000 | 12,413 | 9,553 | 4,000 | 11,553 |
| 2026 | - | - | - | 9,553 | 4,000 | 11,553 |

**NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]**

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable as at 31 December 2020 |
|---|---|---|---|---|---|
| Share purchasing period started in 2017 | 147,984 | 147,984 | 9,544 | - | - |
| Remuneration exchanged to share provided in 2017 | 4,288 | 4,288 | 9,194 | - | - |
| Share purchasing period started in 2018 | 321,528 | 321,528 | 10,387 | - | - |
| Remuneration exchanged to share provided in 2018 | 8,241 | 8,241 | 10,098 | - | - |
| Share purchasing period started in 2019 | 161,446 | 161,446 | 12,415 | - | - |
| Remuneration exchanged to share provided in 2019 | 4,033 | 4,033 | 11,813 | - | - |
| Share purchasing period started in 2020 | 166,231 | 164,039 | 13,585 | - | 2,192 |
| Remuneration exchanged to share provided in 2020 | 4,303 | 4,303 | 11,897 | - | - |

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable as at 31 December 2020 |
|---|---|---|---|---|---|
| Share purchasing period started in 2018 | 108,243 | 108,243 | 11,005 | - | - |
| Remuneration exchanged to share provided in 2018 | 11,926 | 11,926 | 10,098 | - | - |
| Share purchasing period started in 2019 | 212,282 | 212,282 | 12,096 | - | - |
| Remuneration exchanged to share provided in 2019 | 26,538 | 26,538 | 11,813 | - | - |
| Share purchasing period started in 2020 | 101,571 | 94,830 | 11,878 | - | 6,741 |
| Remuneration exchanged to share provided in 2020 | 11,584 | 11,584 | 11,897 | - | - |
| Share purchasing period starting in 2021 | - | - | - | - | 120,981 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 12,838 |
| Share purchasing period starting in 2022 | - | - | - | - | 42,820 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 3,003 |

**NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]**

Based on parameters accepted by Supervisory Board relating to the year **2018** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable as at 31 December 2020 |
|---|---|---|---|---|---|
| Share purchasing period started in 2019 | 82,854 | 82,854 | 13,843 | - | - |
| Remuneration exchanged to share provided in 2019 | 17,017 | 17,017 | 11,829 | - | - |
| Share purchasing period started in 2020 | 150,230 | 3,448 | 12,471 | - | 146,782 |
| Remuneration exchanged to share provided in 2020 | 33,024 | 33,024 | 11,897 | - | - |
| Share purchasing period starting in 2021 | - | - | - | - | 74,529 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 16,167 |
| Share purchasing period starting in 2022 | - | - | - | - | 99,341 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 17,042 |
| Share purchasing period starting in 2023 | - | - | - | - | 45,155 |
| Remuneration exchanged to share applying in 2023 | - | - | - | - | 4,114 |
| Remuneration exchanged to share applying in 2024 | - | - | - | - | 864 |
| Remuneration exchanged to share applying in 2025 | - | - | - | - | 432 |

**NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]**

Based on parameters accepted by Supervisory Board relating to the year **2019** effective pieces are follows as at 31 December 2020:

| | Approved pieces of shares | Exercised until 31 December 2020 | Weighted average share price at the date of exercise (in HUF) | Expired pieces | Exercisable as at 31 December 2020 |
|---|---|---|---|---|---|
| Share purchasing period started in 2020 | 91,403 | 91,403 | 12,218 | - | - |
| Remuneration exchanged to share provided in 2020 | 22,806 | 22,806 | 11,897 | - | - |
| Share purchasing period starting in 2021 | - | - | - | - | 202,386 |
| Remuneration exchanged to share applying in 2021 | - | - | - | - | 32,238 |
| Share purchasing period starting in 2022 | - | - | - | - | 109,567 |
| Remuneration exchanged to share applying in 2022 | - | - | - | - | 15,554 |
| Share purchasing period starting in 2023 | - | - | - | - | 125,771 |
| Remuneration exchanged to share applying in 2023 | - | - | - | - | 18,025 |
| Share purchasing period starting in 2024 | - | - | - | - | 44,421 |
| Remuneration exchanged to share applying in 2024 | - | - | - | - | 6,279 |
| Remuneration exchanged to share applying in 2025 | - | - | - | - | 1,000 |
| Remuneration exchanged to share applying in 2026 | - | - | - | - | 500 |

Effective pieces relating to the periods starting in 2021-2026 settled during valuation of performance of year 2017-2019, can be modified based on risk assessment and personal changes.

In connection with the share-based compensation for Board of Directors and connecting compensation, shares given as a part of payments detailed above and based on performance assessment accounted as equity-settled share based transactions, HUF 3,394 million and HUF 3,548 million was recognized as expense for the year ended 31 December 2020 and 2019 respectively.

**Defined benefit plan**

Defined benefit plan is post-employment benefit plans other than defined contribution plan. The Group's net obligation is calculated by estimating the amount of employee's future benefit based on their servicies for the current and prior periods. The future value of benefit is being discounted to present value.

The Group has small number of plans and mainly in Bulgaria, Serbia, Montenegro and Slovenia. These plans are providing retirement benefits upon pension age as lump-sum payment based either on fixed amounts or certain months of salary.
These plans are unfunded consequently there are no significant plan assets associated with these plans.

**NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]**

**Defined benefit plan [continued]**

| | 2020 | 2019 |
|---|---|---|
| **Balance as at 1 January** | 4,809 | 1,966 |
| Increase due to acquisition | - | 2,359 |
| Current service cost | 402 | 290 |
| Interest cost | 66 | 75 |
| Actuarial gains from changes in demographic assumptions | (14) | (137) |
| Actuarial (gains) / losses from changes in financial assumptions | (203) | 130 |
| Benefits paid | (261) | (128) |
| Past service cost | (274) | (5) |
| Other increases | 497 | 259 |
| **Closing balance** | **5,022** | **4,809** |

**Amounts recognized in profit or loss**

| | 2020 | 2019 |
|---|---|---|
| Current service cost | 402 | 290 |
| Net interest expense | 66 | 75 |
| Actuarial losses | 14 | 29 |
| Past service cost | (274) | (5) |
| **Total** | **208** | **389** |

**Actuarial assumptions**

The following are the main actuarial assumptions

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 0.46%-3% | 0.46%-3.5% |
| Future salary increases | 0.4%-5% | 0.0%-5% |

OTP Group expects to make insignificant amount of contribution to the defined benefit plans during the year 2021.

**NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn)**

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

| **Compensations** | 2020 | 2019 |
|---|---|---|
| Short-term employee benefits | 10,093 | 8,453 |
| Share-based payment | 2,619 | 2,732 |
| Other long-term employee benefits | 870 | 636 |
| Termination benefits | 508 | 40 |
| Post-employment benefits | - | 35 |
| **Total** | **14,090** | **11,896** |

**NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

| | 2020 | 2019 |
|---|---|---|
| Loans provided to companies owned by the Management (normal course of business) | 87,791 | 55,517 |
| Commitments to extend credit and guarantees | 36,758 | 27,708 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions) | 361 | 666 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Types of transactions** | Non-consolidated subsidiaries | Associated companies | Non-consolidated subsidiaries | Associated companies |
| Loans provided | 16,395 | 523 | 2,656 | 513 |
| Client deposits | 6,541 | 80 | 5,335 | - |
| Net interest income on loan provided | 150 | 10 | 32 | - |
| Net fee income | 26 | 1 | 30 | - |

An analysis of **overdraft loan credit line** is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 130 | 153 |
| Members of Supervisory Board and their close family members | 21 | 4 |
| Executives and their close family members | 159 | - |
| **Total** | **310** | **157** |

An analysis of credit limit related to **MasterCard Gold / MasterCard Bonus Gold** is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 23 | 39 |
| Members of Supervisory Board and their close family members | 11 | - |
| Executives and their close family members | 73 | 1 |
| **Total** | **107** | **40** |

An analysis of credit limit related to **MasterCard Classic / MasterCard Bonus** is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 2 | - |
| Members of Supervisory Board and their close family members | 1 | - |
| **Total** | **3** | **-** |

**NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]**

An analysis of credit limit related to **Visa Card** is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 48 | 39 |
| Members of Supervisory Board and their close family members | 5 | 2 |
| **Total** | **53** | **41** |

An analysis of credit limit related to **AMEX Gold** credit card loan is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 3 | 7 |
| Executives and their close family members | - | 33 |
| **Total** | **3** | **40** |

An analysis of credit limit related to **Visa Infinite / AMEX Platinum** credit card loan is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 27 | 20 |
| Members of Supervisory Board and their close family members | 5 | 5 |
| Executives and their close family members | 110 | 69 |
| **Total** | **142** | **94** |

An analysis of **Lombard loans**, **Personal loans** is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 54,050 | 53,661 |
| Members of Supervisory Board and their close family members | - | 10 |
| Executives and their close family members | 1,442 | 1,419 |
| **Total Lombard loans** | **55,492** | **55,090** |
| | | |
| Members of Board of Directors and their close family members | 105 | 214 |
| Members of Supervisory Board and their close family members | 4 | - |
| Executives and their close family members | 14 | 7 |
| **Total Personal loans** | **123** | **221** |

An analysis of **"Baby expecting loan"** and **AXA real estate loans** at the Bank is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors and their close family members | 9 | - |
| Executives and their close family members | 66 | - |
| **Total "Baby expecting loan"** | **75** | **-** |
| Executives and their close family members | 34 | - |
| **Total Axa real estate loans** | **34** | **-** |

## NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

An analysis of payment to executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

| | 2020 | 2019 |
|---|---|---|
| Members of Board of Directors | 2,502 | 3,060 |
| Members of Supervisory Board | 204 | 227 |
| **Total** | **2,706** | **3,287** |

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

## NOTE 41: ACQUISITION (in HUF mn)

**Purchase and consolidation of subsidiaries**

The Société Générale Group made a strategic decision about the disposal of its bank subsidiaries in the Central and Eastern European countries and the Balkan Region, in order to be able to strengthen its position in other regions. The strategic goal of OTP Group is to strengthen its presence in the Central and Eastern European region and to enter other markets of strategic importance. By completing these transactions the parties achieved part of their strategic goals. Based on market standards, OTP Group made the due diligence of the subsidiaries using data provided by the Vendor, then in line with the process defined by the Vendor, after several biddings, the decision was made about the selected subsidiaries. Following the agreement in principles the parties finalized the details of the purchase agreements which were fixed in contracts.

A comprehensive due diligence was performed before every acquisition decision, where in accordance with the main statements of the due diligence, the market environment, the historical performance of the target and the expected profit-making capacity of the target for the period after the closing according to the business plan, the realistic range of the purchase price was defined. Having taken into consideration some other aspects, management laid down the proposed purchase price. Purchasing an entity with positive or negative goodwill is reasoned by altogether the expected cost synergies arising from the market situation and the survey of joint profit-making capacity, the size of the marge typical for the markets, and other strategic considerations (gain of new market shares or increasing them).
Individually the purchase prices were not made public – as it was agreed with the Vendor – however, the aggregated purchase price was HUF 460,077 million.

On 13 December 2019 the financial closure of the Slovenian transaction has been completed (after the acquisition agreement was signed on 2 May 2019). As a result, OTP Bank has become 99.73% owner of **SKB Banka**, the Slovenian subsidiary of Societe Generale Group and other local subsidiaries held by SKB Banka, so it was consolidated from December 2019.

On 25 July 2019 the financial closure of the Moldovan transaction has been completed (after the acquisition agreement was signed on 5 February, 2019). As a result, OTP Bank has become 96.69% owner of **Mobiasbanca – Groupe Societe Generale S.A.** („MBSG"), the Moldovan subsidiary of Societe Generale Group, so it was consolidated from July 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 90.56% shareholding of **Societe Generale banka Montenegro a.d.** („SGM"), the Montenegrin subsidiary of Societe Generale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Societe Generale Group, has been completed on 16 July 2019. The acquisition agreement between SG and CKB was signed on 27 February 2019 and the Montenegrin subsidiary was consolidated from July 2019.

**NOTE 41: ACQUISITIONS (in HUF mn) [continued]**

**Purchase and consolidation of subsidiaries [continued]**

On 24 September 2019 the financial closure of the Serbian transaction has been completed (after the acquisition agreement was signed on 19 December 2018). As a result, OTP Bank has become 100% owner of **Societe Generale banka Srbija a.d. Beograd** („SGS"), the Serbian subsidiary of Societe Generale Group and other local subsidiaries held by SGS, so it was consolidated from September 2019.

In line with the purchase agreement signed on 1 August 2018 by OTP Bank and the Societe Generale Group, on 29 March 2019 the financial closure of the Albanian transaction has been completed and it was consolidated. As a result, OTP Bank has become the 100% owner of **Banka Societe Generale Albania SH.A.** („SGAL"), the Albanian subsidiary of Societe Generale Group, so it was consolidated from March 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of **Societe Generale Expressbank** („SGEB"), the Bulgarian subsidiary of Societe Generale Group ("SG"), and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank EAD ("DSK Bank"), the Bulgarian subsidiary of OTP Bank, has been completed on 15 January 2019, so it was consolidated from January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018.

The Bulgarian Expressbank AD merged with its parent DSK Bank AD, which was entered in the company register on the 30th of April 2020. The integration of whole bank systems and information was completed on the 4th of May 2020. Podgorička Banka AD Podgorica in Montenegro merged with its parent bank on the 11th of December 2020, named Crnogorska Komercijalna Banka AD Podgorica after the merger.

**NOTE 41: ACQUISITIONS (in HUF mn) [continued]**

**Purchase and consolidation of subsidiaries [continued]**

The fair value of the assets and liabilities acquired is as follows:

| | SKB Banka d.d. Ljubljana Group | Mobiasbanca - OTP Group S.A. | Podgorička banka AD Podgorica | OTP Banka Srbija AD. Beograd Group | Banka OTP Albania SH.A | Expressbank Group |
|---|---|---|---|---|---|---|
| Cash amounts and due from banks and balances with the National Banks | (86,661) | (8,171) | (48,951) | (123,247) | (35,048) | (119,589) |
| Placements with other banks, net of loss allowance for placements and net of repo receivables | (177) | (74,906) | (733) | (13) | (3,951) | (113,360) |
| Financial assets at fair value through profit or loss | (5,148) | (56) | (673) | (3,706) | - | (20,110) |
| Securities at fair value through other comprehensive income | (93,807) | - | (10,272) | (106,992) | (50,424) | (116,786) |
| Loans at amortized cost | (997,417) | (96,837) | (127,867) | (694,521) | (125,400) | (793,134) |
| Loans mandatorily at fair value through profit or loss | (2,586) | - | - | - | - | - |
| Associates and other investments | - | - | - | - | - | (803) |
| Securities at amortized cost | (83,625) | (17,050) | - | (5,402) | - | - |
| Property and equipment | (11,896) | (3,424) | (3,095) | (10,052) | (626) | (19,178) |
| Intangible assets | (14,874) | (879) | (1,224) | (11,457) | (1,746) | (15,793) |
| Right-of-use assets | (1,905) | (1,733) | (263) | (2,430) | (1,256) | (4,838) |
| Investment properties | (300) | - | - | - | - | - |
| Derivative financial assets designated as hedge accounting | - | - | - | - | - | - |
| Other assets | (10,289) | (1,013) | (751) | (5,062) | (1,373) | (5,487) |
| **Total assets** | **(1,308,685)** | **(204,069)** | **(193,829)** | **(962,882)** | **(219,824)** | **(1,209,078)** |

**NOTE 41: ACQUISITIONS (in HUF mn) [continued]**

**Purchase and consolidation of subsidiaries [continued]**

The fair value of the assets and liabilities acquired is as follows [continued]:

| | SKB Banka d.d. Ljubljana Group | Mobiasbanca - OTP Group S.A. | Podgorička banka AD Podgorica | OTP Banka Srbija AD. Beograd Group | Banka OTP Albania SH.A. | Expressbank Group |
|---|---|---|---|---|---|---|
| Amounts due to the banks, the National Governments, deposits from the National Banks and other banks and repo liabilities | 260,395 | 15,870 | 30,518 | 229,216 | 18,762 | 139,753 |
| Financial liabilities designated at fair value through profit or loss | 2,005 | - | - | - | - | - |
| Deposits from customers | 886,419 | 152,145 | 127,663 | 541,005 | 175,534 | 874,910 |
| Liabilities from issued securities | - | - | - | - | - | - |
| Derivative financial liabilities held for trading | - | - | - | - | - | 3,497 |
| Derivative financial liabilities designated as hedge accounting | 3,016 | - | - | - | - | - |
| Leasing liabilities | 1,909 | - | 246 | 2,422 | 1,257 | 4,838 |
| Other liabilities | 16,976 | 3,305 | 11,739 | 16,425 | 1,838 | 16,886 |
| Subordinated bonds and loans | - | - | - | 24,244 | - | 3,878 |
| **Total liabilities** | **1,170,720** | **171,320** | **170,166** | **813,312** | **197,391** | **1,043,762** |
| **Net assets** | **(137,965)** | **(32,749)** | **(23,663)** | **(149,570)** | **(22,433)** | **(165,316)** |

| | **2019** |
|---|---|
| Net assets total | (531,696) |
| Non-controlling interest | 4,103[1] |
| Negative goodwill | 67,516 |
| **Net cash** | **(460,077)** |

[1] Non-controlling interest was measured at its proportionate share of net assets of the acquiree.

**NOTE 41: ACQUISITIONS (in HUF mn) [continued]**

**Purchase and consolidation of subsidiaries [continued]**

**Breakdown of the acquired entity's income, profit / loss from the date of the acquisition:**

| | Interest income | Net result | One-off expense[1] |
|---|---|---|---|
| SKB Banka d.d. Ljubljana Group | - | - | 4,972 |
| Mobiasbanca - OTP Group S.A. | 5,309 | 1,508 | 778 |
| Podgorička banka AD Podgorica | 3,991 | 691 | 978 |
| OTP Banka Srbija AD. Beograd Group | 9,820 | 2,720 | 2,610 |
| Banka OTP Albania SH.A. | 7,418 | 1,173 | 1,606 |
| Expressbank Group | 34,204 | 16,682 | 5,752 |
| Total | 60,742 | 22,774 | 16,696 |

**Breakdown of the acquired entity's income, profit / loss if the Group would have acquired from the beginning of year 2019:**

| | Interest income | Net result | One-off expense[1] |
|---|---|---|---|
| SKB Banka d.d. Ljubljana Group | 30,254 | 21,350 | 4,972 |
| Mobiasbanca - OTP Group S.A. | 11,553 | 4,255 | 778 |
| Podgorička banka AD Podgorica | 8,574 | 2,755 | 978 |
| OTP Banka Srbija AD. Beograd Group | 39,195 | 18,519 | 2,610 |
| Banka OTP Albania SH.A. | 9,944 | 2,075 | 1,606 |
| Expressbank Group | 34,204 | 16,682 | 5,752 |
| Total | 33,724 | 65,636 | 16,696 |

**With the acquisitions the following shares were purchased:**

| | **Number of shares** | **Type** | **Voting rights** |
|---|---|---|---|
| SKB Bank d.d. Ljubljana | 12,614,965 | ordinary share | 99.72% |
| SKB Leasing d.o.o. | - | - | 100.00% |
| SKB Leasing Select d.o.o. | - | - | 100.00% |
| Mobiasbanca-OTP Group SA | 9,669,155 | ordinary share | 96.69% |
| Podgorička banka AD Podgorica | 87,602 | ordinary share | 90.56% |
| OTP Banka Srbija AD. Beograd | 5,331,016 | ordinary share | 100.00% |
| OTP Leasing Srbija d.o.o. Beograd | - | - | 100.00% |
| OTP Osiguranje ADO Beograd | 305,408 | ordinary share | 100.00% |
| Banka OTP Albania | 67,409 | ordinary share | 100.00% |
| Expressbank AD. | 33,584,555 | ordinary share | 100.00% |
| OTP Leasing EOOD | - | - | 100.00% |
| Express Factoring EOOD | - | - | 100.00% |
| Express Life insurance Joint-Stock Company | 29,918 | ordinary share | 100.00% |

[1] The net result was decreased by the loss allowance on loans in accordance with IFRS 9 after the first day of the acquisition (Day 1).

## NOTE 42: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.
The Group primarily considering the following factors in the process of determining the existing of the control:
- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.
Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

**Significant subsidiaries**

| Name | Ownership (Direct and Indirect) | | Activity |
|---|---|---|---|
| | 2020 | 2019 | |
| DSK Bank EAD (Bulgaria) | 99.91% | 100.00% | commercial banking services |
| OTP Bank JSC (Ukraine) | 100.00% | 100.00% | commercial banking services |
| JSC "OTP Bank" (Russia) | 97.91% | 97.91% | commercial banking services |
| OTP banka d.d. (Croatia) | 100.00% | 100.00% | commercial banking services |
| OTP Bank Romania S.A. (Romania) | 100.00% | 100.00% | commercial banking services |
| Vojvodjanska banka a.d. Novi Sad (Serbia) | 100.00% | 100.00% | commercial banking services |
| OTP banka Srbija a.d. Beograd (Serbia) | 100.00% | 100.00% | commercial banking services |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| Banka OTP Albania SHA (Albania) | 100.00% | 100.00% | commercial banking services |
| Mobiasbanca - OTP Group S.A. (Moldova) | 98.26% | 98.26% | commercial banking services |
| SKB Banka d.d. Ljubljana (Slovenia) | 100.00% | 99.66% | commercial banking services |
| OTP Financing Malta Company Ltd. (Malta) | 100.00% | 100.00% | refinancing activities |
| OTP Financing Netherlands B.V. (the Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Holding Ltd. (Cyprus) | 100.00% | 100.00% | refinancing activities |
| OTP Financing Cyprus Ltd. (Cyprus) | 100.00% | 100.00% | refinancing activities |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| OTP Mortgage Bank Ltd. | 100.00% | 100.00% | mortgage lending |
| OTP Real Estate Ltd. | 100.00% | 100.00% | real estate management and development |
| Merkantil Bank Ltd. | 100.00% | 100.00% | finance lease |
| OTP Building Society Ltd. | 100.00% | 100.00% | housing savings and loan |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| Inga Kettő Ltd. | 100.00% | 100.00% | property management |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| OTP Real Estate Leasing Ltd. | 100.00% | 100.00% | real estate leasing |

## NOTE 42: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

**Significant associates and joint ventures**[1]

Summarized financial and non-financial information of associates and joint ventures which are not significant on Group level and are accounted according to IAS 28 (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

| 2020 | *Szallas.hu Ltd.* | *D-ÉG Thermoset Ltd.*[2] | *Company for Cash Services Ltd.* | *Total* |
|---|---|---|---|---|
| Total assets | 5,855 | 3,883 | 2,856 | **12,594** |
| Total liabilities | 1,358 | 4,629 | 147 | **6,134** |
| Shareholders' equity | 4,497 | (746) | 2,709 | **6,460** |
| Total revenues | 3,833 | 2,386 | 1,531 | **7,750** |
| Ownership | 47.4% | 24.6% | 25.0% | |
| Country / Headquarter | Hungary, Miskolc | Hungary, Budapest | Bulgaria, Sofia | |

**Activity:**

| | |
|---|---|
| Szallas.hu Ltd. | Web portal services. |
| D-ÉG Thermoset Ltd. | Wholesale of hardware, plumbing and heating equipment and supplies. |
| Company for Cash Services Ltd. | Other financial services, except insurance and pension funding. |

| 2019 | *Szallas.hu Ltd.* | *D-ÉG Thermoset Ltd.* [2] | *Company for Cash Services Ltd.* | *Total* |
|---|---|---|---|---|
| Total assets | 4,939 | 3,883 | 2,736 | **11,558** |
| Total liabilities | 1,429 | 4,629 | 186 | **6,244** |
| Shareholders' equity | 3,510 | (746) | 2,550 | **5,314** |
| Total revenues | 3,405 | 2,386 | 1,315 | **7,106** |
| Ownership | 50.0% | 24.6% | 25.0% | |
| Country / Headquarter | Hungary, Miskolc | Hungary, Budapest | Bulgaria, Sofia | |

## NOTE 43: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

| | 2020 | 2019 |
|---|---|---|
| The amount of loans managed by the Group as a trustee | 36,811 | 37,320 |

[1] Based on unaudited financial statements.
[2] Main figures of D-ÉG Thermoset Ltd. based on the latest unaudited financial statements as at 31 October 2017.

## NOTE 44: CONCENTRATION OF ASSETS AND LIABILITIES

| | 2020 | 2019 |
|---|---|---|
| **In the percentage of the total assets** | | |
| Receivables from, or securities issued by the Hungarian Government or the NBH | 14.45% | 15.63% |

There were no other significant concentrations of the assets or liabilities of the Group either as at 31 December 2020 or 2019 respectively.
The Group continuously provides the NBH with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the NBH, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Bank in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas

The Bank' internal regulation (Limit-management regulation) controls risk management which related to exposures of clients. The Bank makes a difference between clients or clients who are economically connected with each other, partners, partners operating in the same geographical region or in the same economic sector, exposures from customers. Limit-management regulation includes a specific range provision system used by the Bank to control risk exposures. This regulation has to be used by the Bank for its business (lending) risk-taking activity both in retail and corporate sector.

To specify credit risk limits Group strives their clients get an acceptable margin of risk based on their financial situation. In the Group limit system has to be provided a lower level decision-making delegation.
If a Group member takes risk against a client or group of clients (either inside the local economy or outside), the client will be qualified as a group level risk and these limits will be specified at group level.
The validity period of this policy is 12 months. The limit shall be reviewed prior to the expiry date but at least once a year - based on the relevant information required to limit calculations.

## NOTE 45: EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

| **Earnings per share from continuing and discontinued operations** | **2020** | **2019** |
|---|---|---|
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 259,416 | 412,241 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 258,461,554 | 261,593,299 |
| **Basic Earnings per share (in HUF)** | **1,004** | **1,576** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 259,416 | 412,241 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 258,543,088 | 261,660,993 |
| **Diluted Earnings per share (in HUF)** | **1,003** | **1,575** |

**NOTE 45: EARNINGS PER SHARE (in HUF mn) [continued]**

| **Earnings per share from continuing operations** | **2020** | **2019** |
|---|---|---|
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 253,826 | 416,909 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 258,461,554 | 261,593,299 |
| **Basic Earnings per share (in HUF)** | **982** | **1,594** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 253,826 | 416,909 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 258,543,088 | 261,660,993 |
| **Diluted Earnings per share (in HUF)** | **982** | **1,593** |

| **Earnings per share from discontinued operations** | **2020** | **2019** |
|---|---|---|
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 5,590 | (4,668) |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 258,461,554 | 261,593,299 |
| **Basic Earnings per share (in HUF)** | **22** | **(18)** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 5,590 | (4,668) |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 258,543,088 | 261,660,993 |
| **Diluted Earnings per share (in HUF)** | **22** | **(18)** |

| | **2020** | **2019** |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | 21,538,456 | 18,406,711 |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **258,461,554** | **261,593,299** |
| Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1] | 81,534 | 67,694 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **258,543,088** | **261,660,993** |

[1] Both in the year 2020 and 2019 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

## NOTE 46: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

| 2020 | Net interest / similar to interest gain and loss | Net non-interest gain and loss | Loss allowance | Other Compre-hensive Income |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 5,103 | - | - | - |
| Placements with other banks, net of loss allowance for placements | 9,200 | - | (851) | - |
| Repo receivables | 286 | - | 62 | - |
| Trading securities at fair value through profit or loss | - | 2,745 | - | - |
| Non-trading instruments mandatorily at fair value through profit or loss | 473 | 7,239 | - | - |
| Securities at fair value through other comprehensive income | 44,782 | 2,325[1] | (4,507) | (6,931) |
| Securities at amortized cost | 69,905 | 1,402 | (2,802) | - |
| Loans at amortized cost | 658,579 | 26,254 | (189,554) | - |
| Finance lease receivables | 54,046 | - | (9,972) | - |
| Loans mandatorily at fair value through profit or loss | 28,251 | 2,125 | (3,262) | - |
| Other financial assets | 2,739[2] | - | 878 | - |
| Derivative financial instruments | (628)[2] | 13,734 | - | - |
| **Total result on financial assets** | **872,736** | **55,824** | **(210,008)** | **(6,931)** |
| | | | | |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | (18,492) | - | - | - |
| Repo liabilities | (653) | - | - | - |
| Financial liabilities designated at fair value through profit or loss | (307) | 1,270 | - | - |
| Deposits from customers | (53,522) | 234,030 | - | - |
| Liabilities from issued securities | (7,750) | - | - | - |
| Leasing liabilities | (1,623) | - | - | - |
| Subordinated bonds and loans | (7,718) | - | - | - |
| **Total result on financial liabilities** | **(90,065)** | **235,300** | **-** | **-** |
| **Total result on financial instruments** | **782,671** | **291,124** | **(210,008)** | **(6,931)** |

[1] For the year 2020 HUF 2,325 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

[2] Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

**NOTE 46: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

| 2019 | Net interest / similar to interest gain and loss | Net non-interest gain and loss | Loss allowance | Other Compre-hensive Income |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2,037 | - | - | - |
| Placements with other banks, net of loss allowance for placements | 10,521 | - | 235 | - |
| Repo receivables | 788 | - | - | - |
| Trading securities at fair value through profit or loss | - | 2,542 | - | - |
| Non-trading instruments mandatorily at fair value through profit or loss | 202 | 1,914 | - | - |
| Securities at fair value through other comprehensive income | 46,521 | 8,485[1] | (153) | 30,224 |
| Securities at amortized cost | 62,468 | 714 | 162 | - |
| Loans at amortized cost | 598,534 | 22,541 | (40,271) | - |
| Finance lease receivables | 40,914 | - | (4,440) | - |
| Loans mandatorily at fair value through profit or loss | 17,509 | (2,131) | (2,953) | - |
| Other financial assets | 3,672[2] | - | 280 | - |
| Derivative financial instruments | 773[2] | (996) | - | - |
| **Total result on financial assets** | **783,939** | **33,069** | **(47,140)** | **30,224** |
| | | | | |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | (11,842) | - | - | - |
| Repo liabilities | (148) | - | - | - |
| Financial liabilities designated at fair value through profit or loss | (367) | (21) | - | - |
| Deposits from customers | (59,397) | 228,939 | - | - |
| Liabilities from issued securities | (6,749) | - | - | - |
| Leasing liabilities | (1,652) | - | - | - |
| Subordinated bonds and loans | (4,743) | - | - | - |
| **Total result on financial liabilities** | **(84,898)** | **228,918** | **-** | **-** |
| **Total result on financial instruments** | **699,041** | **261,987** | **(47,140)** | **30,224** |

[1] For the year ended 31 December 2019 HUF 8,485 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

[2] Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

## NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 47. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, repo receivables, amounts due to banks, repo liabilities, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.
Fair value measurements – in relation to instruments measured not at fair value – are mainly categorized in level 2 of the fair value hierarchy.

## NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

### a) Fair value of financial assets and liabilities

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Banks | 2,432,312 | 2,432,312 | 1,784,378 | 1,784,378 |
| Placements with other banks, net of loss allowance for placements | 1,148,743 | 1,150,081 | 342,922 | 316,298 |
| Repo receivables | 190,849 | 191,149 | 67,157 | 67,157 |
| Financial assets at fair value through profit or loss | 234,007 | 234,007 | 251,990 | 251,990 |
| *Trading securities at fair value through profit or loss* | *56,572* | *56,572* | *100,048* | *100,048* |
| *Fair value of derivative financial assets held for trading* | *117,623* | *117,623* | *110,624* | *110,624* |
| *Non-trading instruments mandatorily at fair value through profit or loss* | *57,577* | *57,577* | *39,317* | *39,317* |
| *Financial assets designated at fair value through profit or loss* | *2,235* | *2,235* | *2,001* | *2,001* |
| Securities at fair value through other comprehensive income | 2,136,709 | 2,136,709 | 2,426,779 | 2,426,779 |
| Securities at amortized cost | 2,624,920 | 2,384,933 | 1,968,072 | 2,087,633 |
| Loans at amortized cost [1] | 11,674,842 | 12,802,818 | 10,413,521 | 11,113,687 |
| Finance lease receivables | 1,051,140 | 1,070,528 | 969,263 | 969,263 |
| Loans measured at fair value through profit or loss | 802,605 | 802,605 | 496,278 | 496,278 |
| Derivative financial assets designated as hedge accounting | 6,820 | 6,820 | 7,463 | 7,463 |
| Other financial assets | 140,562 | 140,562 | 123,053 | 123,053 |
| **Financial assets total** | **22,443,509** | **23,352,524** | **18,850,876** | **19,643,979** |
| Amounts due to the National Governments, to the National Banks and other banks | 1,185,315 | 1,172,036 | 812,911 | 1,070,948 |
| Repo liabilities | 117,991 | 119,927 | 488 | 488 |
| Financial liabilities designated at fair value through profit or loss | 34,131 | 34,131 | 30,862 | 30,862 |
| Deposits from customers | 17,890,863 | 17,905,676 | 15,171,308 | 15,240,968 |
| Liabilities from issued securities | 464,213 | 529,723 | 393,167 | 494,196 |
| Held for trading derivative financial liabilities | 104,823 | 104,823 | 86,743 | 86,743 |
| Derivative financial liabilities designated as hedge accounting | 11,341 | 11,341 | 10,709 | 10,709 |
| Leasing liabilities | 48,451 | 48,451 | 54,194 | 54,194 |
| Other financial liabilities | 389,902 | 389,902 | 338,020 | 338,020 |
| Subordinated bonds and loans | 274,704 | 265,679 | 249,938 | 237,381 |
| **Financial liabilities total** | **20,521,734** | **20,581,689** | **17,148,340** | **17,564,509** |

[1] Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**b) Fair value of derivative instruments**

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.
The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

The summary of the derivatives held for trading and derivatives designated as hedge accounting of the Group are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Held for trading derivative financial instruments** | | | | |
| **Interest rate derivatives** | | | | |
| Interest rate swaps | 24,979 | (24,752) | 33,203 | (31,471) |
| Cross currency interest rate swaps | 7,315 | (7,419) | 1,141 | (1,037) |
| OTC options | 359 | (8) | 306 | (14) |
| Forward rate agreement | - | - | 13 | (32) |
| **Total interest rate derivatives (OTC derivatives)** | **32,653** | **(32,179)** | **34,663** | **(32,554)** |
| **Foreign exchange derivatives** | | | | |
| Foreign exchange swaps | 41,838 | (35,537) | 32,845 | (26,244) |
| Foreign exchange forward contracts | 8,689 | (10,750) | 3,522 | (5,504) |
| OTC options | 3,909 | (3,835) | 3,098 | (3,114) |
| Foreign exchange spot conversion | 553 | (657) | 16 | (55) |
| **Total foreign exchange derivatives (OTC derivatives)** | **54,989** | **(50,779)** | **39,481** | **(34,917)** |
| **Equity stock and index derivatives** | | | | |
| Commodity Swaps | 9,695 | (8,269) | 1,097 | (954) |
| Equity swaps | 7,071 | (560) | 4,530 | (558) |
| **OTC derivatives total** | **16,766** | **(8,829)** | **5,627** | **(1,512)** |
| Exchange traded futures and options | 379 | (1,262) | 5 | (248) |
| **Total equity stock and index derivatives** | **17,145** | **(10,091)** | **5,632** | **(1,760)** |
| **Derivatives held for risk management not designated in hedge** | | | | |
| Interest rate swaps | 11,943 | (8,208) | 27,995 | (15,246) |
| Foreign exchange swaps | 808 | (3,566) | 2,757 | (2,209) |
| Forward contracts | 41 | - | 21 | (57) |
| Cross currency interest rate swaps | 44 | - | 75 | - |
| **Total derivatives held for risk management not designated in hedge** | **12,836** | **(11,774)** | **30,848** | **(17,512)** |
| **Total held for trading derivative financial instruments** | **117,623** | **(104,823)** | **110,624** | **(86,743)** |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**b) Fair value of derivative instruments [continued]**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Derivative financial instruments designated as hedge accounting** | | | | |
| **Derivatives designated in fair value hedges** | | | | |
| Interest rate swaps | 641 | (5,334) | 3,758 | (8,839) |
| Cross currency interest rate swaps | 6,179 | (6,007) | 3,705 | (1,870) |
| **Total derivatives designated in fair value hedges** | **6,820** | **(11,341)** | **7,463** | **(10,709)** |
| **Total derivatives held for risk management (OTC derivatives)** | **6,820** | **(11,341)** | **7,463** | **(10,709)** |

**c) Types of hedge accounting**

Interest rate risk management is centralized at the Group. Interest rate risk exposures in major currencies are managed at OTP Headquarter on consolidated level. Although risk exposures in local currencies are managed at subsidiary level, the respective decisions are subject to Headquarter ALCO approval. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR, EURIBOR, LIBOR, etc.) of the respective currency.

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2020**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | HUF | | | | | | |
| | | Notional | - | - | 60,000 | (89,622) | 173,810 | **144,188** |
| | | Average Interest Rate (%) | - | - | 1.31% | 1.06% | 1.35% | |
| | | EUR | | | | | | |
| | | Notional | 15 | - | 5 | 102 | 10 | **132** |
| | | Average Interest Rate (%) | (0.11)% | - | 0.09% | 0.24% | 0.22% | |
| | | USD | | | | | | |
| | | Notional | - | - | 21 | 171 | 29 | **221** |
| | | Average Interest Rate (%) | - | - | 2.00% | 2.38% | 2.35% | |
| | | RUB | | | | | | |
| | | Notional | - | - | - | 2,100 | - | **2,100** |
| | | Average Interest Rate (%) | - | - | - | 7.38% | - | |
| **Fair Value Hedge** | **Foreign exchange & Interest rate risk** | **Cross currency interest rate swap** | | | | | | |
| | | EUR/HUF | | | | | | |
| | | Notional | - | - | 2 | 12 | 14 | **28** |
| | | Average Interest Rate (%) | (1.55)% | (1.59)% | (1.60)% | (1.63)% | (1.67)% | |
| | | Average FX Rate | 311.08 | 310.95 | 310.82 | 310.14 | 308.15 | |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2020 [continued]**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Foreign exchange risk** | **Cross currency interest rate swap** | | | | | | |
| | | EUR/HUF | | | | | | |
| | | Notional | 1 | 92 | 123 | 613 | - | **829** |
| | | Average FX Rate | 360.19 | 354.92 | 360.47 | 356.03 | - | |
| | | RON/HUF | | | | | | |
| | | Notional | - | - | - | 1,550 | - | **1,550** |
| | | Average FX Rate | - | - | - | 72.6 | - | |
| | | RUB/HUF | | | | | | |
| | | Notional | - | - | - | 4,100 | - | **4,100** |
| | | Average FX Rate | - | - | - | 4.46 | - | |
| | **Other** | **Interest rate swap** | | | | | | |
| | | HUF | | | | | | |
| | | Notional | - | (183) | 6,940 | 8,342 | - | **15,099** |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2019**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Interest rate risk** | **Interest rate swap** | | | | | | |
| | | HUF | | | | | | |
| | | Notional | - | - | 229,600 | 65,268 | 145,510 | **440,378** |
| | | Average Interest Rate (%) | - | - | 1.84% | 1.29% | 1.26% | |
| | | EUR | | | | | | |
| | | Notional | - | 20 | - | 177 | 27 | **224** |
| | | Average Interest Rate (%) | - | 3.88% | - | 0.14% | 0.61% | |
| | | USD | | | | | | |
| | | Notional | - | - | 8 | 437 | 29 | **474** |
| | | Average Interest Rate (%) | - | - | 2.64% | 1.92% | 2.35% | |
| | | RUB | | | | | | |
| | | Notional | - | - | - | 2,100 | - | **2,100** |
| | | Average Interest Rate (%) | - | - | - | 7.38% | - | |
| **Fair Value Hedge** | **Foreign exchange & Interest rate risk** | **Cross currency interest rate swap** | | | | | | |
| | | EUR/HUF | | | | | | |
| | | Notional | - | - | 2 | 15 | 14 | **31** |
| | | Average Interest Rate (%) | - | - | (1.60)% | (1.63)% | (1.66)% | |
| | | Average FX Rate | - | - | 310.37 | 309.79 | 308.69 | |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2019 [continued]**

| Type of hedge | Type of risk | Type of instrument | Within one month | Within three months and over one month | Within one year and over three months | Within five years and over one year | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Fair Value Hedge** | **Foreign exchange risk** | **Cross currency interest rate swap** | | | | | | |
| | | RON/HUF | | | | | | |
| | | Notional | - | - | 150 | 1,050 | - | **1,200** |
| | | Average FX Rate | - | - | 67.5 | 68.83 | - | |
| | | RUB/HUF | | | | | | |
| | | Notional | - | - | 2,000 | 9,100 | - | **11,100** |
| | | Average FX Rate | - | - | 4.2 | 4.33 | - | |
| **Fair Value Hedge** | **Other** | **Interest rate swap** | | | | | | |
| | | HUF | | | | | | |
| | | Notional | - | (310) | 13,644 | 15,763 | - | **29,097** |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**As at 31 December 2020 is as follows:**

| Type of hedge | Type of instrument | Type of risk | Nominal amount of the hedging instrument | Carrying amount of the hedging instrument as at 31 December 2020 | | Line item in the statement of financial position where the hedging instrument is located | Changes in fair value used for calculating hedge ineffectiveness for the year ended as at 31 December 2020 |
|---|---|---|---|---|---|---|---|
| | | | | Assets | Liabilities | | |
| Fair value hedge | Interest rate swap | Interest rate risk | 468,574 | 111 | (5,267) | Derivative financial instruments designated as hedge accounting | (370) |
| | Cross-currency swap | FX & IR risk | 8,874 | - | (1,618) | Derivative financial instruments designated as hedge accounting | (36) |
| | Cross-currency swap | FX risk | 438,401 | 6,179 | (4,456) | Derivative financial instruments designated as hedge accounting | (809) |
| | Interest rate swap | Other | 16,224 | 530 | - | Derivative financial instruments designated as hedge accounting | 2 |
| **Fair value hedges total** | | | **932,073** | **6,820** | **(11,341)** | | **(1,213)** |

**As at 31 December 2019 is as follows:**

| Type of hedge | Type of instrument | Type of risk | Nominal amount of the hedging instrument | Carrying amount of the hedging instrument as at 31 December 2019 | | Line item in the statement of financial position where the hedging instrument is located | Changes in fair value used for calculating hedge ineffectiveness for the year ended as at 31 December 2019 |
|---|---|---|---|---|---|---|---|
| | | | | Assets | Liabilities | | |
| Fair value hedge | Interest rate swap | Interest rate risk | 687,820 | 2,251 | (8,839) | Derivative financial instruments designated as hedge accounting | 341 |
| | Cross-currency swap | FX & IR risk | 11,681 | - | (488) | Derivative financial instruments designated as hedge accounting | (103) |
| | Cross-currency swap | FX risk | 137,390 | 3,705 | (1,382) | Derivative financial instruments designated as hedge accounting | (271) |
| | Interest rate swap | Other | 30,983 | 1,507 | - | Derivative financial instruments designated as hedge accounting | 7 |
| **Fair value hedges total** | | | **867,874** | **7,463** | **(10,709)** | | **(26)** |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**As at 31 December 2020 is as follows:**

| Type of hedge | Type of risk | Carrying amount of the hedged item as at 31 December 2020 | | Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2020 | | Line item in the statement of financial position in which the hedged item is included |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Assets | Liabilities | |
| **Fair value hedges** | | | | | | |
| - Loans | Interest rate risk | 35,256 | (100,299) | 507 | (151) | Loans |
| - Government bonds | Interest rate risk | 177,888 | - | 884 | - | Securities at amortized cost |
| - Government bonds | Interest rate risk | 91,950 | - | 1,154 | - | Securities at fair value through other comprehensive income |
| - Government bonds | Interest rate risk | - | - | - | - | Financial assets at fair value through profit or loss |
| - Other securities | Interest rate risk | 47,560 | - | 793 | - | Securities at fair value through other comprehensive income |
| - Loans | Foreign exchange & Interest rate risk | 96,972 | - | 9 | (1,634) | Loans |
| - Loans | Foreign exchange risk | 303,572 | - | 10,855 | - | Loans |
| - Other securities | Other risk | - | (15,032) | - | (3,144) | Liabilities from issued securities |
| **Fair value hedges total** | | **753,198** | **(115,331)** | **14,202** | **(4,929)** | |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**As at 31 December 2019 is as follows:**

| Type of hedge | Type of risk | Carrying amount of the hedged item as at 31 December 2019 | | Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2019 | | Line item in the statement of financial position in which the hedged item is included |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | Assets | Liabilities | |
| **Fair value hedges** | | | | | | |
| - Loans | Interest rate risk | 36,709 | - | 521 | - | Loans |
| - Government bonds | Interest rate risk | 578,026 | - | 109 | - | Securities at amortized cost |
| - Government bonds | Interest rate risk | 144,234 | - | 1,074 | - | Securities at fair value through other comprehensive income |
| - Government bonds | Interest rate risk | - | - | - | - | Financial assets at fair value through profit or loss |
| - Other securities | Interest rate risk | 85,231 | - | 166 | - | Securities at fair value through other comprehensive income |
| - Loans | Foreign exchange & Interest rate risk | 12,242 | - | 2 | - | Loans |
| - Loans | Foreign exchange risk | 136,088 | - | 1,465 | - | Loans |
| - Other securities | Other risk | - | (29,018) | - | (5,765) | Liabilities from issued securities |
| **Fair value hedges total** | | **992,530** | **(29,018)** | **3,337** | **(5,765)** | |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**c) Types of hedge accounting [continued]**

**As at 31 December 2019 is as follows:**

| Type of instrument | Type of risk | Change in the value of the hedging instrument recognized in cash flow hedge reserve | Hedge ineffectiveness recognized in profit or loss | Line item in profit or loss that includes hedge ineffectiveness |
|---|---|---|---|---|
| Interest rate swap | Interest rate risk | 2,086 | (98) | Interest income from placements with other banks |

On Group level there weren't any cash-flow hedges for the year ended 31 December 2020.

According to the strategic direction designated by the Management Committee, a decision was made about closing in accounting meaning the former EUR 310 million strategic open position which was presented at the end of 2019 in the consolidated financial statements, so at the end of 2020 regarding net investment hedges for foreign subsidiaries there aren't any disclosure requirements to be presented.

**Net investment hedge for foreign subsidiaries as at 31 December 2019 is as follows:**

| Type of hedge | Type of risk | Carrying amount of the hedged item as at 31 December 2019 | Type of hedging instrument | Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019 |
|---|---|---|---|---|
| | | EUR million | | HUF million |
| Fx assets in foreign subsidiaries | Foreign exchange risk | 310[1] | OTP HB Perpetual bonds | 2,776.3 |

[1] Companies included: DSK Bank EAD, OTP banka Hrvatska d.d., OTP Banka Slovensko, a.s., Crnogorska Komercijalna Banka AD.

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value levels**

Methods and significant assumptions used to determine fair value of the different levels of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| 2020 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **234,007** | **67,820** | **156,090** | **10,097** |
| *Trading securities at fair value* through profit or loss | 56,572 | 30,333 | 26,227 | 12 |
| *Positive fair value of derivative financial assets held for trading* | 117,623 | 388 | 117,235 | - |
| *Non-trading instruments mandatorily at fair value through profit or loss* | 57,577 | 37,099 | 10,393 | 10,085 [1] |
| *Financial assets designated at fair value through profit or loss* | 2,235 | - | 2,235 | - |
| Securities at fair value through other comprehensive income | 2,136,709 | 1,137,821 | 941,982 | 56,906[2] |
| Loans mandatorily measured at fair value through profit or loss | 802,605 | 1,089 | 2,535 | 798,981 |
| Positive fair value of derivative financial assets designated as fair value hedge | 6,820 | - | 6,820 | - |
| **Financial assets measured at fair value total** | **3,180,141** | **1,206,730** | **1,107,427** | **865,984** |
| Financial liabilities designated at fair value through profit or loss | 34,131 | - | 2,235 | 31,896 |
| Negative fair value of held-for-trading derivative financial liabilities | 104,823 | 1,386 | 103,437 | - |
| Negative fair value of derivative financial liabilities designated as fair value hedge | 11,341 | - | 11,341 | - |
| **Financial liabilities measured at fair value total** | **150,295** | **1,386** | **117,013** | **31,896** |

[1] The portfolio includes mainly Visa C shares.
[2] The portfolio includes mainly HUF 46,124 million albanian government bonds.

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value levels [continued]**

| 2019 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | **251,990** | **105,246** | **143,233** | **3,511** |
| *Trading securities at fair value through profit or loss* | 100,048 | 75,963 | 24,085 | - |
| *Positive fair value of derivative financial assets held for trading* | 110,624 | 6 | 110,618 | - |
| *Non-trading instruments mandatorily at fair value through profit or loss* | 39,317 | 29,277 | 6,529 | 3,511 |
| *Financial assets designated at fair value through profit or loss* | 2,001 | - | 2,001 | - |
| Securities at fair value through other comprehensive income | 2,426,779 | 1,591,882 | 775,202 | 59,695[1] |
| Loans mandatorily measured at fair value through profit or loss | 496,278 | 490 | 2,581 | 493,207 |
| Positive fair value of derivative financial assets designated as fair value hedge | 7,463 | - | 7,463 | - |
| **Financial assets measured at fair value total** | **3,182,510** | **1,697,618** | **928,479** | **556,413** |
| Financial liabilities designated at fair value through profit or loss | 30,862 | - | 2,001 | 28,861 |
| Negative fair value of held for trading derivative financial liabilities | 86,743 | 249 | 86,494 | - |
| Negative fair value of derivative financial liabilities designated as fair value hedge | 10,709 | - | 10,709 | - |
| **Financial liabilities measured at fair value total** | **128,314** | **249** | **99,204** | **28,861** |

[1] The portfolio includes mainly Visa Inc. "C" convertible preferred stock and common shares and HUF 44,098 million albanian government bonds.

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value levels [continued]**

**Movements in Level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

| 2020 | Opening balance | Purchase (+) | Issuance /Disbursement (+) | Settlement / Close (-) | Sale (-) | FVA (+/-) | Transfer (+/-) | Revaluation | Other | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|
| Trading securities at fair value through profit or loss | 3,511 | - | - | (5,043) | - | (362) | 9,973 | 2,018 | - | 10,097 |
| Securities at fair value through other comprehensive income | 59,695 | 11,076 | - | (9,398) | (162) | 1,637 | (10,812) | 4,870 | - | 56,906 |
| Loans mandatorily measured at fair value through profit or loss | 493,207 | - | 333,908 | (21,397) | - | (6,737) | - | - | - | 798,981 |
| **Financial assets measured at fair value total** | **556,413** | **11,076** | **333,908** | **(35,838)** | **(162)** | **(5,462)** | **(839)** | **6,888** | **-** | **865,984** |
| Financial liabilities designated at fair value through profit or loss | 28,861 | - | - | (1,689) | - | (1,270) | - | - | 5,994 | 31,896 |
| **Financial liabilities designated at fair value total** | **28,861** | **-** | **-** | **(1,689)** | **-** | **(1,270)** | **-** | **-** | **5,994** | **31,896** |

**NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value levels [continued]**

**Movements in Level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

| 2019 | Opening balance | Purchase (+) | Issuance /Disbursement (+) | Settlement / Close (-) | Sale (-) | FVA (+/-) | Transfer (+/-) | Revaluation | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| Trading securities at fair value through profit or loss | - | - | 3,511 | - | - | - | - | - | 3,511 |
| Securities at fair value through other comprehensive income | 10,690 | 47,213 | 949 | (217) | (1,295) | - | - | 2,355 | 59,695 |
| Loans mandatorily measured at fair value through profit or loss | 263,534 | - | 266,091 | (30,513) | - | (5,905) | - | - | 493,207 |
| **Financial assets measured at fair value total** | **274,224** | **47,213** | **270,551** | **(30,730)** | **(1,295)** | **(5,905)** | **-** | **2,355** | **556,413** |
| Financial liabilities designated at fair value through profit or loss | 32,231 | - | - | (3,349) | - | - | - | (21) | 28,861 |
| **Financial liabilities designated at fair value total** | **32,231** | **-** | **-** | **(3,349)** | **-** | **-** | **-** | **(21)** | **28,861** |

There were no movements among the levels of fair value hierarchy either in the year ended 31 December 2020 or 31 December 2019 respectively.

## NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported below.

The operations in the Slovakian segment were discontinued. The segment information reported on the next pages does not include any amounts for these discontinued operations neither in the current year nor in the previous one, which are described in more details in Note 49.

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017 (from the first quarter of 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc., OTP Ingatlanpont Llc. were included from the first quarter of 2019 and OTP eBIZ Ltd was included from the first quarter of 2020. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program.

From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., and OTP Factoring Montenegro d.o.o. are included into the foreign banks segment.

From the first quarter of 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation, so from the first quarter of 2019 the statement of recognized income and balance sheet of DSK Leasing AD was included into this segment too.
The Bulgarian Expressbank AD merged with its parent DSK Bank AD in April 2020.
The Serbian segment, OTP banka Srbija AD Beograd and Vojvodjanska Banka a.d. Novi Sad includes from the first quarter of 2019 the statements of profit or loss and financial positions of OTP Lizing d.o.o, OTP Services d.o.o. and from the third quarter of 2019 the financial position of the newly acquired OTP banka Srbija AD Beograd and from the fourth quarter of 2019 its statement of profit or loss too.
The Montenegrin segment, Crnogorska Komercijalna Banka a.d. and Podgoricka banka a.d. includes from the third quarter of 2019 the statement of profit or loss and financial position of the newly acquired Podgoricka banka a.d. In December 2020 Podgoricka banka a.d. merged into Crnogorska Komercijalna Banka a.d.
In the first quarter of 2019 the Albanian, and from the second half of year 2019 the Moldovan and Slovenian segments were included as new segments in the consolidated segment report.

The activities of the other subsidiaries are out of the leasing and fund management and factoring activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

**NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]**

The reportable business and geographical segments of the Group are those components where:

- separated income and ex penses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

**Adjustments**

**Goodwill / investment impairment and their tax saving effect:**

As at 31 December 2020 HUF 9,841 million impairment was booked on the investment in OTP Bank Romania S.A. on which HUF 886 million positive tax effect was recognized. As at 31 December 2019 HUF 8,427 million was recognized on goodwill / investment impairment from which HUF 4,887 million was recognized on OTP Bank Romania S.A as goodwill impairment and HUF 3,540 million negative tax effect was recognized due to the impairment and release of impairment on investments, which is mainly related to the release of the previously recognized impairment on OTP Bank JSC (Ukraine).

**Special tax on financial institutions (after income tax):**

Special tax on financial institutions includes the special tax paid by the Hungarian financial institutions, the net present value effect of the once-off additional banking tax payable into the pandemic fund in 2020 (the payments are deductible from future banking taxes), the Slovakian banking levy and as well as in the fourth quarter of 2019 the banking tax paid by the Romanian bank, subsidiary of OTP Group. Besides, it also contains the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

**Effect of acquisitions (after income tax):**

The following main items appear on this line: the negative goodwill related to acquisitions which improves the accounting result, integration costs of the newly acquired banks and other direct effects due to the acquisitions (such as customer base value amortisation) and effects related to the sale of the Slovakian bank.

## NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

### Information regarding the Group's reportable segments is presented below:

### As at 31 December 2020

| Main components of the Consolidated Statement of Profit or Loss in HUF million | OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports | Adjustments on the accounting in Recognized Income | OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports | OTP CORE (Hungary) | Foreign banks subtotal (without adjustments) | DSK Bank AD (Bulgaria) | OTP banka Hrvatska d.d. (Croatia) | Vojvodjanska banka a.d. + OTP Banka Srbija AD. Beograd (Szerbia) | SKB Banka (Slovenia) | OTP Bank Romania S.A. (Romania) | OTP Bank JSC (Ukraine) | JSC "OTP Bank" (Russia) and Touch Bank | Crnogorska komercijalna banka AD Podgorička (Montenegro) | Banka OTP Albania SHA (Albania) | Mobiasbanca - OTP Group S.A. (Moldova) | Non-banking subsidiaries subtotal | Merkantil Group (Hungary) | Asset Management subsidiaries | Other subsidiaries | Corporate Centre | Eliminations and adjustments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1=a+b | | | | | | | | | | | | | | | | | | |
| | a | b | 1= 2+3+14+18+19 | 2 | 3=4+...+13 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14=15+16+17 | 15 | 16 | 17 | 18 | 19 |
| **Net profit for the year from continued and discontinued operations** | **259,636** | | **259,636** | | | | | | | | | | | | | | | | | | |
| **Net profit for the year from discontinued operations** | 5,590 | | 5,590 | | | | | | | | | | | | | | | | | | |
| **Net profit for the year from continued operations** | **254,046** | | **254,046** | | | | | | | | | | | | | | | | | | |
| **Adjustments (total)** | | **(56,220)** | **(56,220)** | | | | | | | | | | | | | | | | | | |
| Dividends and net cash transfers (after income tax) | | 213 | 213 | | | | | | | | | | | | | | | | | | |
| Goodwill /investment impairment (after income tax) | | 886 | 886 | | | | | | | | | | | | | | | | | | |
| Bank tax on financial institutions (after income tax) | | (17,365) | (17,365) | | | | | | | | | | | | | | | | | | |
| Effect of acquisition (after income tax) | | (12,441) | (12,441) | | | | | | | | | | | | | | | | | | |
| Impact of fines imposed by the Hungarian Competition Authority (after income tax) | | 749 | 749 | | | | | | | | | | | | | | | | | | |
| Expected one-off negative effect of the debt repayment moratorium in Hungary (after income tax) | | (28,262) | (28,262) | | | | | | | | | | | | | | | | | | |
| **Consolidated adjusted net profit for the year** | **254,046** | **56,222** | **310,268** | **159,302** | **126,967** | **40,957** | **14,829** | **7,299** | **9,664** | **1,557** | **26,104** | **16,317** | **4,307** | **1,960** | **3,973** | **25,830** | **7,661** | **9,824** | **8,345** | **(569)** | **(1,262)** |
| **Profit before income tax** | **281,422** | **70,380** | **351,802** | **175,860** | **148,858** | **44,664** | **17,600** | **8,456** | **12,103** | **1,466** | **31,589** | **21,409** | **4,609** | **2,449** | **4,513** | **28,483** | **8,617** | **10,749** | **9,117** | **(526)** | **(873)** |
| **Adjusted operating profit** | **500,092** | **37,345** | **537,437** | **181,178** | **326,660** | **89,774** | **40,329** | **35,899** | **19,787** | **11,810** | **42,030** | **65,068** | **8,352** | **5,904** | **7,707** | **28,889** | **10,279** | **10,765** | **7,845** | **(526)** | **1,236** |
| Adjusted total income | 1,207,759 | (37,839) | 1,169,920 | 453,635 | 653,581 | 166,667 | 84,907 | 79,001 | 40,388 | 43,747 | 67,385 | 123,198 | 22,095 | 11,597 | 14,596 | 59,158 | 21,283 | 15,248 | 22,627 | 419 | 3,127 |
| Adjusted net interest income | 782,671 | 5,408 | 788,079 | 286,448 | 474,148 | 111,239 | 58,199 | 59,514 | 28,103 | 32,739 | 48,581 | 99,872 | 17,188 | 9,824 | 8,889 | 19,020 | 17,688 | 5 | 1,327 | 419 | 8,044 |
| Adjusted net profit from fees and commissions | 397,633 | (104,521) | 293,112 | 130,470 | 135,156 | 45,453 | 16,093 | 14,766 | 11,127 | 3,813 | 13,540 | 22,503 | 4,446 | 1,278 | 2,137 | 25,212 | 40 | 14,883 | 10,289 | 0 | 2,274 |
| Adjusted other net non-interest income | 27,455 | 61,274 | 88,729 | 36,717 | 44,277 | 9,975 | 10,615 | 4,721 | 1,158 | 7,195 | 5,264 | 823 | 461 | 495 | 3,570 | 14,926 | 3,555 | 360 | 11,011 | 0 | (7,191) |
| Adjusted other administrative expenses | (707,667) | 75,184 | (632,483) | (272,457) | (326,921) | (76,893) | (44,578) | (43,102) | (20,601) | (31,937) | (25,355) | (58,130) | (13,743) | (5,693) | (6,889) | (30,269) | (11,004) | (4,483) | (14,782) | (945) | (1,891) |
| **Total risk costs** | **(218,670)** | **30,675** | **(187,995)** | **(7,678)** | **(177,802)** | **(45,110)** | **(22,729)** | **(27,443)** | **(7,684)** | **(10,344)** | **(10,441)** | **(43,659)** | **(3,743)** | **(3,455)** | **(3,194)** | **(406)** | **(1,662)** | **(16)** | **1,272** | **0** | **(2,109)** |
| Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX) | (218,670) | 60,249 | (158,421) | 2,374 | (156,710) | (44,875) | (19,491) | (22,170) | (6,244) | (7,840) | (6,286) | (41,160) | (3,434) | (2,515) | (2,695) | (1,487) | (1,491) | 0 | 4 | 0 | (2,598) |
| Other provision (adjustment) | 0 | (29,574) | (29,574) | (10,052) | (21,092) | (235) | (3,238) | (5,273) | (1,440) | (2,504) | (4,155) | (2,499) | (309) | (940) | (499) | 1,081 | (171) | (16) | 1,268 | 0 | 489 |
| **Total other adjustments (one-off items)[1]** | **0** | **2,360** | **2,360** | **2,360** | 0 | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 | 0 |
| **Income tax** | **(27,376)** | **(14,158)** | **(41,534)** | **(16,558)** | **(21,891)** | **(3,707)** | **(2,771)** | **(1,157)** | **(2,439)** | **91** | **(5,485)** | **(5,092)** | **(302)** | **(489)** | **(540)** | **(2,653)** | **(956)** | **(925)** | **(772)** | **(43)** | **(389)** |
| | | | | | | | | | | | | | | | | | | | | | |
| **Total Assets[2]** | **23,329,771** | **0** | **23,329,771** | **11,492,949** | **13,609,776** | **4,283,625** | **2,325,669** | **2,052,332** | **1,353,772** | **1,162,183** | **729,012** | **688,980** | **477,676** | **286,606** | **249,921** | **1,118,927** | **667,120** | **35,584** | **416,223** | **2,865,511** | **(5,757,392)** |
| **Total Liabilities[3]** | **20,793,243** | **0** | **20,793,243** | **9,726,310** | **11,651,728** | **3,663,247** | **1,997,504** | **1,779,286** | **1,187,648** | **1,034,945** | **611,941** | **505,578** | **401,119** | **257,826** | **212,634** | **842,473** | **614,566** | **17,052** | **210,855** | **1,504,289** | **(2,931,557)** |

( ) used at: provisions, impairment and expenses

[1] One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

[2] Relating to the discontinued operations the assets were HUF 6,070 million.

[3] Relating to the discontinued operations the liabilities were HUF 5,486 million.

## NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

### Information regarding the Group's reportable segments is presented below [continued]

### As at 31 December 2019

| Main components of the Consolidated Statement of Profit or Loss in HUF million | OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports | Adjustments on the accounting in Recognized Income | OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports | OTP CORE (Hungary) | Foreign banks subtotal (without adjustments) | DSK Group including Expressbank AD (Bulgaria) | OTP banka Hrvatska d.d. (Croatia) | Vojvodjanska banka a.d. + OTP Banka Srbija AD. Beograd (Szerbia) | SKB Banka (Slovenia) | OTP Bank Romania S.A. (Romania) | OTP Bank JSC (Ukraine) | JSC "OTP Bank" (Russia) and Touch Bank | Crnogorska komercijalna banka a.d. + Podgoričkа banka AD (Montenegro) | Banka OTP Albania SHA (Albania) | Mobiasbanca - OTP Group S.A. (Moldova) | Non-banking subsidiaries subtotal | Merkantil Bank (Hungary) | Asset Management subsidiaries | Other subsidiaries | Corporate Centre | Eliminations and adjustments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1=a+b | | | | | | | | | | | | | | | | | | |
| | a | b | 1= 2+3+12+16+17 | 2 | 3=4+…+11 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | | | 12=13+14+15 | 13 | 14 | 15 | 16 | 17 |
| **Net profit for the year from continued and discontinued operations** | **412,582** | | **412,582** | | | | | | | | | | | | | | | | | | |
| **Net profit for the year from discontinued operations** | 4,668 | | 4,668 | | | | | | | | | | | | | | | | | | |
| **Net profit for the year from continued opearations** | **417,250** | | **417,250** | | | | | | | | | | | | | | | | | | |
| **Adjustments (total)** | | **(1,803)** | **(1,803)** | | | | | | | | | | | | | | | | | | |
| Dividends and net cash transfers (after income tax) | | 505 | 505 | | | | | | | | | | | | | | | | | | |
| Goodwill /investment impairment (after income tax) | | (8,427) | (8,427) | | | | | | | | | | | | | | | | | | |
| Bank tax on financial institutions (after income tax) | | (16,170) | (16,170) | | | | | | | | | | | | | | | | | | |
| Effect of acquisition (after income tax) | | 23,933 | 23,933 | | | | | | | | | | | | | | | | | | |
| One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax) | | (1,644) | (1,644) | | | | | | | | | | | | | | | | | | |
| **Consolidated adjusted net profit for the year** | **417,250** | **1,802** | **419,052** | **193,991** | **189,612** | **67,879** | **30,718** | **10,430** | **0** | **6,309** | **35,222** | **28,127** | **6,377** | **2,615** | **1,935** | **32,182** | **7,116** | **15,335** | **9,731** | **3,478** | **(211)** |
| **Profit before income tax** | **467,152** | **-1,179** | **465,973** | **206,659** | **220,152** | **75,078** | **37,399** | **9,971** | **0** | **6,907** | **42,159** | **36,399** | **7,056** | **3,074** | **2,109** | **34,829** | **7,748** | **16,782** | **10,299** | **3,906** | **427** |
| **Adjusted operating profit** | **523,839** | **-13,793** | **510,046** | **177,030** | **293,500** | **83,495** | **42,925** | **13,144** | **0** | **12,315** | **44,353** | **84,946** | **5,692** | **3,702** | **2,928** | **34,754** | **7,373** | **16,642** | **10,739** | **3,906** | **856** |
| Adjusted total income | 1,165,056 | (87,328) | 1,077,728 | 435,048 | 565,450 | 155,566 | 85,069 | 43,277 | 0 | 37,531 | 67,451 | 146,582 | 16,120 | 7,952 | 5,902 | 68,079 | 14,370 | 21,186 | 32,523 | 4,490 | 4,661 |
| Adjusted net interest income | 699,041 | 7,257 | 706,298 | 261,754 | 408,725 | 109,030 | 56,812 | 30,809 | 0 | 28,254 | 48,128 | 113,572 | 11,464 | 6,697 | 3,959 | 18,807 | 14,013 | 3 | 4,791 | 4,490 | 12,522 |
| Adjusted net profit from fees and commissions | 374,181 | (91,677) | 282,504 | 126,911 | 123,739 | 42,019 | 17,032 | 9,506 | 0 | 3,180 | 14,877 | 31,012 | 4,215 | 1,007 | 891 | 29,118 | (104) | 20,475 | 8,747 | 0 | 2,736 |
| Adjusted other net non-interest income | 91,834 | (2,908) | 88,926 | 46,383 | 32,986 | 4,517 | 11,225 | 2,962 | 0 | 6,097 | 4,446 | 1,998 | 441 | 248 | 1,052 | 20,154 | 461 | 708 | 18,985 | 0 | (10,597) |
| Adjusted other administrative expenses | (641,217) | 73,535 | (567,682) | (258,018) | (271,950) | (72,071) | (42,144) | (30,133) | 0 | (25,216) | (23,098) | (61,636) | (10,428) | (4,250) | (2,974) | (33,325) | (6,997) | (4,544) | (21,784) | (584) | (3,805) |
| **Total risk costs** | **(56,687)** | **9,580** | **(47,107)** | **26,595** | **(73,348)** | **(8,417)** | **(5,526)** | **(3,173)** | **0** | **(5,408)** | **(2,194)** | **(48,547)** | **1,364** | **(628)** | **(819)** | **75** | **375** | **140** | **(440)** | **0** | **(429)** |
| Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX) | (56,687) | 27,213 | (29,474) | 30,332 | (59,952) | (5,216) | (2,835) | (1,634) | 0 | (3,018) | (1,433) | (46,123) | 1,293 | (249) | (737) | 52 | 143 | 0 | (91) | 0 | 94 |
| Other provision (adjustment) | 0 | (17,633) | (17,633) | (3,737) | (13,396) | (3,201) | (2,691) | (1,539) | 0 | (2,390) | (761) | (2,424) | 71 | (379) | (82) | 23 | 232 | 140 | (349) | 0 | (523) |
| **Total other adjustments (one-off items)[1]** | **0** | **3,034** | **3,034** | **3,034** | 0 | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Income tax** | **(49,902)** | **2,981** | **(46,921)** | **(12,668)** | **(30,540)** | **(7,199)** | **(6,681)** | **459** | **0** | **(598)** | **(6,937)** | **(8,272)** | **(679)** | **(459)** | **(174)** | **(2,647)** | **(632)** | **(1,447)** | **(568)** | **(428)** | **(638)** |
| | | | | | | | | | | | | | | | | | | | | | |
| **Total Assets[2]** | **19,659,696** | **0** | **19,659,696** | **9,641,692** | **11,965,975** | **3,669,766** | **2,098,951** | **1,659,483** | **1,130,871** | **953,345** | **646,295** | **908,388** | **439,836** | **247,997** | **211,043** | **909,128** | **491,399** | **35,846** | **381,883** | **2,946,936** | **(5,804,035)** |
| **Total Liabilities[3]** | **17,467,983** | **0** | **17,467,983** | **7,920,820** | **10,207,807** | **3,141,007** | **1,806,302** | **1,410,022** | **998,204** | **836,912** | **537,167** | **705,628** | **373,648** | **222,393** | **176,524** | **653,521** | **446,958** | **9,123** | **197,440** | **1,599,877** | **(2,914,042)** |

( ) used at: provisions, impairment and expenses

[1] One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

[2] Relating to the discontinued operations the assets were HUF 462,071 million.

[3] Relating to the discontinued operations the liabilities were HUF 362,496 million.

## NOTE 49: DISCONTINUED OPERATIONS (in HUF mn)

On 31 December 2020, the Group classified the operations of its Croatian subsidiary, OTP Osiguranje d.d. as discontinued operations. The classification was needed because there is intention for the sale.

These operations, which are expected to be sold within 12 months, have been classified as a discontinued operation, so the assets, liabilities of these discontinued operations and their losses are presented separately in both the statement of financial position and statement of profit or loss.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

| | 2020 | 2019 |
|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2 | - |
| Placements with other banks, net of loss allowance for placements, net of repo receivables | 244 | 221 |
| Non-trading instruments mandatorily at fair value through profit or loss | 1,188 | 1,143 |
| Securities at fair value through other comprehensive income | 3,410 | 4,122 |
| Securities at amortized cost | 1,031 | 719 |
| Tangible assets on net value | 92 | 88 |
| Right-of-use assets on net value | 42 | 62 |
| Other assets on net value | 61 | 79 |
| **Non-current assets and disposal group classified as held-for-sale** | **6,070** | **6,434** |
| Leasing liabilities | 44 | 63 |
| Other liabilities | 5,442 | 5,098 |
| **Disposal group liabilities classified as held-for-sale** | **5,486** | **5,161** |

| | 2020 | 2019 |
|---|---|---|
| Income | 1,548 | 2,029 |
| Expense | (1,334) | (1,733) |
| **Profit before income tax** | **214** | **296** |
| Income tax expense of OTP Osiguranje d.d. | (15) | (25) |
| **Gain from non-current assets and disposal groups classified as held-fo-sale not qualifying as discontinued operations** | **199** | **271** |

The Croatian insurance company cash-flow contributed to the Group's operating activity with HUF 431 million, to the Group's investing activity with HUF 327 million, and in respect of the Group's financing activity with HUF 232 million which were modified by the eliminations during the consolidation by HUF 988 million as at 31 December 2020.

The financial transaction regarding the sale of the Slovakian subsidiary was closed, presented in these consolidated financial statements as discontinued operations.

The results of the discontinued operations, which have been included in the profit for the year, were as follows:

| | 2020 | 2019 |
|---|---|---|
| Income | 15,503 | 16,942 |
| Expense | (17,216) | (15,522) |
| **Profit before income tax** | **(1,713)** | **1,420** |
| Income tax expense of OTP Banka Slovensko a.s. | (142) | (56) |
| Expected gain / (loss) of the sale of OTP Banka Slovensko a.s. | 7,887 | (6,032) |
| Income tax effect of the discontinued operation | (641) | - |
| **Gain / (Loss) from sale of the Slovakian subsidiary** | **5,391** | **(4,668)** |

## NOTE 49: DISCONTINUED OPERATIONS (in HUF mn) [continued]

The Slovakian subsidiary bank cash-flow contributed to the Group's operating activity with HUF (8,231) and (48,377) million, to the Group's investing activity with HUF (9,653) and (1,197) million, and in respect of the Group's financing activity with HUF 86,281 and (1,086) million which were modified by the eliminations during the consolidation by HUF (67,767) and 23,788 million as at 31 December 2020 and 2019, respectively.

## NOTE 50: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2020

### 1) Term Note Program

See details in Note 21.

### 2) Sale of OTP Osiguranje d.d.

The Croatian subsidiary of the Bank, OTP banka d.d., has signed a share purchase agreement to sell its 100% stake in the Croatian insurance company OTP Osiguranje d.d. to Groupama Biztosító Zrt.

The financial closure of the transaction is expected to take place in first half of 2021, subject to obtaining the necessary supervisory approvals.

### 3) Sale of OTP Banka Slovensko a.s.

The transaction, based on the share purchase agreement signed with KBC Bank NV on 17 February 2020, has been financially closed, as a result of which the 99.44% shareholding in its Slovakian subsidiary, OTP Banka Slovensko was acquired by KBC Bank NV.

## NOTE 51: POST BALANCE SHEET EVENTS

### 1) Determination of expected credit loss

Compliance with the executive circular issued in January 2021 by the National Bank of Hungary on the "use of macroeconomic information in applying IFRS 9 and factors indicating a significant increase in credit risk" does not significantly impact the determination of expected credit losses as at 31 December 2020.

### 2) Supreme Court ruling in Croatia

In September 2019, the Supreme Court of the Republic of Croatia made a ruling, which to a large extent confirms the earlier ruling of the High Commercial Court of the Republic of Croatia dated June 2018 in the case of protection of collective interest and rights of the consumers who had taken loans with principals indexed to Swiss franc (Ruling No. Rev- 2221/2018- 11 of the Supreme Court of the Republic of Croatia, hereinafter referred to as "the Ruling"). In February 2021, the Constitutional Court of the Republic of Croatia rejected and dismissed the constitutional complaints of seven Croatian banks filed against the judgments of the Supreme Court of the Republic of Croatia and the High Commercial Court of the Republic of Croatia in a collective dispute initiated by the Consumer Association due to unfair contractual provisions related to the Swiss franc.
In the Group's view, in this regard, since the decisions of the Supreme Court as well as the decisions of lower courts are final and the courts are already acting on them, there has been no increase in consumer rights (CHF loan clients) or an increase in liabilities on the part of banks. Accordingly, the Group does not expect an increase in the number of lawsuits that would result in additional provisions above the amounts reserved and provided for as of 31 December 2020. Possible liabilities of the Group arising from decisions of the courts related to such individual consumer lawsuits are considered unforeseeable liabilities. As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Group, no further disclosures are made about the contingent liabilities in connection with the Ruling.

# REPORT OF THE SUPERVISORY BOARD ON THE ANNUAL FINANCIAL STATEMENTS FOR 2020 AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT

**In 2020**, the Supervisory Board conducted its activity and performed its duties in compliance with the procedures regulated in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, as well as in Act V of 2013 on the Civil Code and in its own procedural rules.

In order to protect the interests of the company and the owners, it strengthened **its audit function**, in the context of which it requested reports from the executive management, heard briefings and passed resolutions.

Based on reports submitted by the Company's executive management, it continuously monitored

- the development of the Bank's interim results,
- the Bank's business activity,
- the changes in the portfolio's quality,
- compliance with the provisions of the Act on Credit Institutions and Financial Enterprises,
- the activity of the internal audit unit that is under its professional supervision, the activity of the audit units involved in the unified internal audit system,
- the results of the execution of the tasks requiring the measures and internal audits stipulated by the resolutions and recommendations of the National Bank of Hungary,
- execution of the resolutions passed by its own board.

Prior to the ordinary annual General Meeting of 2020, the Supervisory Board reviewed all key business policy reports on the agenda of the General Meeting, as well as all proposals that relate to matters falling within the exclusive competence of the company's supreme body. During 2020, it passed regular decisions in connection with its tasks concerning the Remuneration Policy of OTP Bank and the Bank Group, and it performed all other tasks referred to its authority by law or by the Articles of Association, or set out in the authorities' recommendations.

In accordance with Section 152(3)(a) of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and its Rules of Procedure, which comply with such provisions, the Supervisory Board took steps to ensure that OTP Bank Plc. has an audit system in place suitable for comprehensive and efficient operation and, furthermore, given its scope of authority, also ensured the compliant operation of the internal audit units of the credit institutions, financial firms and investment firms that are under the controlling influence of the Bank.

The Supervisory Board performed its professional **governance role** in accordance with the provisions of the Credit Institutions Act, through audits conducted and regular reports submitted by the internal audit unit under its professional supervision (Internal Audit Directorate).

As a part of its professional oversight of the internal audit units, the Supervisory Board

- commented on, and subsequently approved, the **annual audit plan** of the Internal Audit Directorate and the Bank Group members subject to consolidated supervision, which was elaborated on the basis of risk analyses. It designated the audit topics to be implemented at the group level, which it deemed to be of priority importance in terms of Group-level strategy, legal compliance, the achievement of the set business policy goals, as well as risk factors.
- **requested reports** from the internal audit unit, at regular intervals in accordance with its work schedule, on audits carried by it and by Group members under its consolidated supervision, the conclusions drawn and proposals submitted, furthermore, on the completion of the tasks undertaken in action plans drawn up by the audited departments,

as well as extraordinary events that came to light in the course of internal audit activities and which are also of significance at the level of the Bank Group.

- discussed the reports and accounts prepared by the internal audit unit, and, based on the findings of the audits completed and on its own experience, it accepted recommendations and proposals, and prescribed further obligations to provide information.

**Prior to the decision-making date of the Board of Directors acting in the competency of the Annual General Meeting in 2021 the Supervisory Board**, in fulfilment of its statutory obligation, **reviewed** all the material business policy reports on the agenda of the General Meeting, as well as all the proposals relating to matters that fall within the exclusive competence of the company's supreme body.
The Supervisory Board studied the Bank's **2020 financial statements** and was **briefed by the auditor**.

The Supervisory Board commented on and approved the **Corporate Governance Report** (for 2020) prior to its proposal to the General Meeting.

The Supervisory Board – based on prior agreement with the Board of Directors – **makes a proposal at the 2021 General Meeting** regarding the identity and the remuneration of the **auditor** to be selected.

The Supervisory Board evaluated **the performance of the senior officers during the business year** and made a proposal to the 2021 Annual General Meeting on whether to grant the senior officers discharge from liability.
Prior to the 2021 Annual General Meeting, the Supervisory Board ascertains that the Bank has, in compliance with its statutory obligations, **published** its material data, its declaration on remuneration, and the information that is required by law to be made public.

The Supervisory Board has, by compiling this document, prepared its report on **the 2020 annual financial statements** and on the proposal for the **use of the after-tax profit,** and it will submit it to the 2021 Annual General Meeting.

Based on the documents made available to it in respect of the 2020 business year, the Supervisory Board has concluded that OTP Bank Plc. prepared its **annual financial statements** in line with the provisions of Act C of 2000 on Accounting and in compliance with the rules on the presentation of financial accounts as set out in the International Financial Reporting Standards (IFRS) as accepted by the European Union.

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Supervisory Board has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Supervisory Board of OTP Bank Plc., in agreement with the contents of the report of the auditor, approves:

- the non-consolidated annual report on the 2020 business year, prepared in accordance with the International Financial Reporting Standards

  ***a balance sheet total of HUF 11,154,394 million,*** and

- the consolidated annual report on the 2020 business year, prepared in accordance with the International Financial Reporting Standards with

  ***a balance sheet total of HUF 23,335,841 million*****,** and

- the non-consolidated net profit in accordance with the International Financial Reporting Standards

  ***in the amount of HUF 92,474 million***

- having approved the **business report** of the Board of Directors,

submits the above for approval to the Company's Board of Directors acting in the competency of the Annual General Meeting.

The Supervisory Board agrees on the proposal of the Board of Directors according to which the general reserve must be increased by HUF 9,247 million, and the remaining amount must be set to the retained earnings.

# AUDIT COMMITTEE'S REPORT
# ON THE ANNUAL FINANCIAL STATEMENTS FOR 2020
# AND PROPOSAL FOR THE USE OF
# THE AFTER-TAX PROFIT

In 2020 the Audit Committee conducted its activity and performed its duties in compliance with the procedures regulated in Act V of 2013 on the Civil Code, as well as in its own procedural rules accepted by the Bank's Supervisory Board.

In support of the work of the Bank's Supervisory Board, and as part of a close working relationship between the various Committees, it collaborated in the monitoring of the financial reporting system, in the selection of the auditor and in maintaining the expected and appropriate cooperation with the auditor.

The Audit Committee, in addition to what was discussed at the meetings of the Supervisory Board,

- *heard reports for the previous financial year,*
  - as part of the auditor's report, on the 2019 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
  - on the proposal for the use of after-tax profit of the parent company and dividend payments;
  - as part of the auditor's report, on the 2019 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
  - on the results of the audit of the 2019 financial reports received from the auditor,
  - as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2019,
  - on the material data of the 2019 financial report that is to be published.

  It has agreed with the contents of the reports, and proposed that these be presented to the Board of Directors acting under the authority of the General Meeting.

- *monitored*
  - in the interim financial statements approved by the auditor, changes in the results, as well as the contents of the interim balance sheet and the independent auditor's reports.

- *it obtained information*
  - the Consolidated and group-member controlling reports for the 3rd quarter of 2020
  - The 2021 operative business and financial plan of OTP Bank Plc. and OTP Core
  - on approvals and rejections concerning contracts for non-prohibited, non-auditor services,
  - On the 2021 business and financial plan of OTP and the Bank Group
  - On the Risk Strategy of the OTP Group for the period 2020-2022
  - On the Lending Policy of the Hungarian operation (OTP Bank, Merkantil Bank, Ingatlanlízing, Lakástakarék, OTP Jelzálogbank) for 2021,

- the proposed auditor's report for OTP Bank, Merkantil Bank Zrt., OTP Jelzálogbank Zrt. and OTP Lakástakarék Zrt., drawn up by the Company's auditor concerning the financial statements for the previous year.

➢ *commented on, and accepted,*

- the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor,
- the 2020 audit schedule for the Bank Group
- the report on management, the Company's financial position and its business policy (follow-up on the business plan) for Merkantil Bank Zrt. / OTP Jelzálogbank Zrt. / OTP Lakástakarék Zrt.

➢ *approved*

- The report of the Audit Committee on the 2019 annual financial reports and the proposal regarding the use of the after-tax profit.
- requests for non-prohibited, non-auditor services of a value below €100,000,

**Prior to the decision-making date of the Board of Directors acting in the competency of the Annual General Meeting the Audit Committee examined** and evaluated the audited annual financial statements and the consolidated annual financial statements featuring as items on the agenda of the General Meeting, and heard the briefing of the auditor. It accepts the proposal on the selection of the Company's auditor.

Based on the documentation made available to it in respect of the 2020 business year, the Audit Committee has concluded that OTP Bank Plc. prepared its annual financial statements in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act C of 2000 on Accounting, and Government Decree 250/2000. (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises.

The Bank accounted for impairment and set aside risk provisions in accordance with the provisions of the Act on Credit Institutions and Financial Enterprises, the government decree on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises, as well as of the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on rating and on valuation, impairment and provisioning.

Based on the documents made available to it in respect of the consolidated annual financial statements of OTP Bank Plc., the Audit Committee has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Audit Committee, on the basis of the audit reports reviewed, in agreement with the auditor, is in the opinion that on the 2020 business year prepared in accordance with the International Financial Reporting Standards:

- the non-consolidated report with

  ***a balance sheet total of HUF 11,154,394 million,*** and

- the consolidated annual report with

  ***a balance sheet total of HUF 23,335,841 million,*** and

- with the non-consolidated ***net profit***

  ***in the amount of HUF 92,474 million***

submits the above for approval to the Company's Board of Directors acting in the competency of the Annual General Meeting.

The Audit Committee agrees on the proposal of the Board of Directors according to which the general reserve must be increased by HUF 9,247 million, and the remaining amount must be set to the retained earnings.

# RESULTS OF THE INDEPENDENT AUDITORS'S REPORT FOR THE YEAR ENDED 2020

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

***Report on the Audit of the Separate Financial Statements***

***Opinion***

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2020 which comprise the separate statement of financial position as at December 31, 2020 – which shows total assets of HUF 11,154,394 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the period of HUF 92,474 million –, separate statement of changes in equity and separate statement of cash-flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

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

***Basis for Opinion***

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

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

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

***Key Audit Matters***

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

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Calculation of expected credit losses on corporate and retail loans** | |
| (See notes 10., 30., and 35.1. to the separate financial statements for the details)<br><br>As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Bank reported total gross loans of HUF 3,541,430 million and provisions for impairment on loan losses of HUF 123,670 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following:<br><br>- the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model;<br><br>- IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality;<br><br>- model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default, recovery rates and macroeconomic factors;<br><br>- the application of assumptions, where there was limited or incomplete data; and<br><br>- estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.<br><br>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying | Our response as auditors included:<br><br>- testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9;<br><br>- evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses;<br><br>- assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our credit risk specialists;<br><br>- involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied;<br><br>- assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable;<br><br>- sample based testing of individual allowance, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL;<br><br>- assessing the requirement for additional allowances considering the Bank's ECL model, particularly in light of the extreme volatility in |

| | |
|---|---|
| government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL. | economic scenarios caused by the current COVID-19 pandemic and government responses;<br><br>- testing of loan facilities to customers in industries significantly impacted by the pandemic;<br><br>- performing loan portfolio analysis to identify unexpected or anti-trend movements in the loan portfolio regarding stage migration and loss allowance movements; and<br><br>- assessing the adequacy of the disclosures in the financial statements. |

***Other Information***

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2020, which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2020" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

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

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

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

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

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the notes to the separate financial statements, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

***Report on Other Legal and Regulatory Requirements***

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

*Appointment of the Auditor and the Period of Engagement*

We were appointed as the auditors of the Bank on April 30, 2020 and our uninterrupted engagement has lasted for 28 years.

*Consistence with the Additional Report to the Audit Committee*

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 17, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

*Provision of Non-audit Services*

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

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 17, 2021

.....
Horváth Tamás

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

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

Registration number of statutory registered auditor: 003449

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Company Registration Number: 01-09-071057

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

***Report on the Audit of the Consolidated Financial Statements***

***Opinion***

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020 – which shows total assets of HUF 23,335,841 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 259,636 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

***Basis for Opinion***

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

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

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

***Key Audit Matters***

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

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Calculation of expected credit losses on corporate and retail loans** | |
| (See notes 11., 31., and 36.1. to the consolidated financial statements for the details)<br><br>As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Group reported total gross loans of HUF 12,504,385 million and loss allowance on loans of HUF 829,543 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following:<br><br>- the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model;<br><br>- IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality;<br><br>- model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default, recovery rates and macroeconomic factors;<br><br>- the application of assumptions, where there was limited or incomplete data; and<br><br>- estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.<br><br>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying | Our response as auditors included:<br><br>- testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9;<br><br>- evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses;<br><br>- assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our credit risk specialists;<br><br>- involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied;<br><br>- assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable;<br><br>- sample based testing of individual allowance, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL;<br><br>- assessing the requirement for additional allowances considering the Group's ECL model, particularly in light of the extreme volatility in |

| | |
|---|---|
| government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Group in calculating the ECL. | economic scenarios caused by the current COVID-19 pandemic and government responses;<br><br>- testing of loan facilities to customers in industries significantly impacted by the pandemic;<br><br>- performing loan portfolio analysis to identify unexpected or anti-trend movements in the loan portfolio regarding stage migration and loss allowance movements; and<br><br>- assessing the adequacy of the disclosures in the consolidated financial statements. |

***Other Information***

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2020" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2020 corresponds to the consolidated financial statements of the Group for 2020 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

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

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

When we read the sections of the annual report, which had not yet been made available to us at the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

***Responsibilities of management and those charged with governance for the consolidated financial statements***

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

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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

***Report on Other Legal and Regulatory Requirements***

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

*Appointment of the Auditor and the Period of Engagement*
We were appointed as the auditors of OTP Bank Plc. on April 30, 2020 and our uninterrupted engagement has lasted for 28 years.

*Consistence with the Additional Report to the Audit Committee*
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 17, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 17, 2021

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Horváth Tamás

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

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

Registration number of statutory registered auditor: 003449

***RESOLUTION PROPOSAL NO. …./2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, accepts the Board of Directors' report on the Company's financial activity for the year ended 2020, furthermore with full knowledge of the Independent Auditor's Report, the Audit Committee's Report and the Supervisory Board's report, it accepts the proposal on the Bank's separate financial statements and the consolidated financial statements in accordance with the International Financial Reporting Standards for the year ended 2020, and the proposal for the allocation of the after-tax profit of the parent company.*

*The Board of Directors acting in the competency of the Annual General Meeting, determines the statement of financial position for the year ended 2020 with total assets of HUF 11,154,394 million and with net profit for the period of HUF 92,474 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 9,247 million, and the remaining amount must be set to the retained earnings.*

*The Board of Directors acting in the competency of the Annual General Meeting, determines the Company's consolidated balance sheet with total assets of HUF 23,335,841 million, and with net profit continuing operations of HUF 254,046 million. The profit of continuing operations for shareholders is HUF 253,826 million. Net income from discontinued operations is HUF 5,391 million, and net income from continuing and discontinuing operations is HUF 259,636 million.*

# APPROVAL OF THE CORPORATE GOVERNANCE REPORT FOR Y2020

# Corporate Governance Report

## Introduction

OTP Bank Plc. (hereinafter: OTP Bank, Bank or Company) regards the development and maintenance of an **advanced corporate governance system** that conforms to local and international standards as being of primary importance. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms provide a stable basis for efficient and profitable operation.
To this end, the Bank is continuously reviewing and developing its corporate governance practices.

Our corporate governance practice is an important means of ensuring the **fulfilment of our strategic objectives**. Accordingly, within the effective statutory frameworks, we have developed a corporate governance system that simultaneously ensures the confidence and satisfaction of our customers, growth in shareholder value, and our socially responsible corporate conduct. There is no perfect, universally applicable corporate governance solution through which every goal can be achieved as efficiently as possible. For this reason we continuously monitor our governance practices, identifying any deficiencies arising as the result of external and internal changes, and effect those modifications that best serve the fulfilment of our objectives.

The resulting governance structure, optimised to suit our objectives, takes into account the special characteristics of our operations as well as the statutory, supervisory and stock-market requirements that apply to the Bank, while also endeavouring to comply with the related Budapest Stock Exchange (hereinafter: BSE) guidelines. The purpose of the BSE's corporate governance guidelines is for the governance and operating structures of stock exchange-listed companies to be **transparent and comparable** based on a uniform set of criteria. This enables investors, taking into consideration the special characteristics of a given company's operations, the complexity of its activities, and the statutory requirements related to its risk management and financial reporting, to make a well-founded judgement regarding the extent to which the given corporate governance practice ensures reliable and profitable operation.

Like all organisations that provide financial and investment services, the operations of the Bank are, to a high degree, regulated in statutory provisions. As a consequence, not only certain business activities, but our operations as a whole are regulated in detail and monitored by the authorities on a continuous basis. The individual internal control functions (risk management, compliance, and internal audit) have to conform to strict standards, and their effectiveness must be attested not only within the internal corporate governance system, but also to the satisfaction of the external supervisory authorities. All these factors guarantee purposeful, comprehensive and verified risk management procedures, as well as reliable and appropriately supervised data reporting. Therefore, our status as a financial and investment service provider requires us to implement complex and effective corporate governance practices that simultaneously ensure **responsible conduct towards clients and shareholders, reliable operation, and long-term profitability**.

## 1.) Statement on Corporate Governance Practice

The Bank's operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the BSE. The structure and operating conditions of the Company are contained in the Bylaws, which are approved by the General Meeting.

### *1.1. General meeting*

The supreme body of the Bank shall be the General Meeting consisting of the shareholders. The Articles of Association regulate the manner of convocation and operation of the General Meeting, the manner of participation, and of the exercise of voting rights.
The General Meeting shall be convened at least once annually by the Board of Directors.

### *1.2. Management bodies*

#### 1.2.1. Board of Directors

The Company's management body is the Board of Directors. The liability of the Board of Directors extends to the operation of the entire Company, as part of which the Board's main tasks include the approval of the Company's strategy, annual report, major organisational restructurings and policies, as well as making other significant company law-related decisions. In its objectives and activities, particular emphasis is placed on increasing shareholder value, profitability and efficiency, and on managing risks and complying fully with external requirements – in other words on ensuring the most effective enforcement of business, ethical and internal control policies.
The scope of its authority is defined in the effective statutory provisions, the Company's Articles of Association, General Meeting resolutions, and the Organisational and Operational Regulations. Its rules of procedure include the legal status and composition of the Board of Directors, as well as the regulations applicable to its operation and decision making.
All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.
The Board of Directors has an executive role in the governance of the Bank, and this is reflected in its members' remuneration, an important element of which is the share-based honorarium, which serves to harmonise the interests of the board with those of the shareholders.
It oversees the Company's operative management through the Chairman & CEO. The Chairman & CEO is authorised to decide in all matters that do not, pursuant to the Articles of Association, fall within the scope of authority of the General Meeting or the Board of Directors. The employer's rights related to the executive officers of the Company are in general exercised by the Board of Directors as a corporate body, with the proviso that in the case of the deputy CEOs, employer's rights are exercised through the Chairman & CEO, and the prior notification of the Board of Directors is required for their appointment and for the withdrawal of their appointment.
In view of the fact that the Board of Directors also has an important role to play in overseeing the work of the management, it is of substantive importance that **the principle of a majority of external (non-executive) members be implemented in respect of the Board of Directors** (3 executive members, 7 non-executive members)**.** The makeup of the Board of Directors ensures that professional expertise, experience, and a degree of impartiality that goes beyond the above-mentioned independence requirement, are brought to bear in equal measure in the decision-making processes.

The Board of Directors is an executive body elected by the General Meeting of the Bank. The Board of Directors shall be entitled and obliged to make all decisions which are not within the competence of the General Meeting, the Supervisory Board or the Audit Committee as defined by law, the Articles of Association, or a resolution of the General Meeting.

**Members of the Board of Directors of OTP Bank Plc.:**

The members of the Board of Directors are elected by the General Meeting for a term of five years.

| Members of the Board of Directors | | Beginning of Board of Directors membership | Beginning of mandate | End of mandate | Non-executive/executive member |
|---|---|---|---|---|---|
| **Chairman** | Dr. Sándor Csányi | 15 March 1992 | 2016 | 2021 | Executive member |
| **Deputy Chairman** | Tamás György Erdei | 27 April 2012 | 2016 | 2021 | Non-executive member |
| **Members** | Mihály Baumstark | 29 April 1999 | 2016 | 2021 | Non-executive member |
| | Dr. Tibor Bíró | 15 May 1992 | 2016 | 2021 | Non-executive member |
| | Dr. István Gresa | 27 April 2012 | 2016 | 2021 | Non-executive member |
| | Antal György Kovács | 15 April 2016 | 2017 | 2021 | Executive member |
| | Dr. Antal Pongrácz | 26 April 2002 | 2016 | 2021 | Non-executive member |
| | Dr. László Utassy | 25 April 2001 | 2016 | 2021 | Non-executive member |
| | Dr. József Vörös | 15 May 1992 | 2016 | 2021 | Non-executive member |
| | László Wolf | 15 April 2016 | 2016 | 2021 | Executive member |

**Executive members:**

**Dr. Sándor Csányi**
**Chairman & CEO**

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Karl Marx University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and a certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. He has been Chairman & CEO of OTP Bank Plc. since 1992. He is Deputy Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since 2010, and a member of the UEFA Executive Committee since March 2015; has been the Deputy Chairman of the UEFA Executive Committee in 2019. Since 2017 he has been a member of the FIFA Council and the Deputy Chairman of the FIFA Council since 2018.

Since 1995 he has been the Deputy Chairman of the Board of Trustees of the International Child Rescue Service, and since 2003 he has been the Chairman of the Board of Trustees of the Prima Primissima Foundation. In 2005, he established the Csányi Foundation for Children from his own assets. Since 2009, he has been a member of the Board of Trustees of the Media Union Foundation for Social Consciousness Shaping. Since 2020, he has been the chairman of the Board of Trustees of the Foundation for the University of Sopron. In 2021, he became chairman of the Board of Trustees of the Foundation for the Hungarian University of Agricultural and Life Sciences.

As of 31 December 2020 he held 926,378 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 4,712,505).

**Antal György Kovács**
**Deputy CEO**
**Retail Division**

Antal György Kovács graduated from the Karl Marx University of Economic Sciences with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the executive director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute.
Between April 2007 and April 2012 he was Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014.
He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
He was a member of OTP Bank's Supervisory Board from 2004 to 14 April 2016.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2020 he held 46,651 ordinary OTP shares.

**László Wolf**
**Deputy CEO**
**Commercial Banking Division**

Mr. László Wolf graduated from the Karl Marx University of Economic Sciences in 1983.
After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993.
From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. Member of DSK Bank's Supervisory Board. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2020 he held 571,925 ordinary OTP shares.

**Non-executive members:**

**Mihály Baumstark**
**BSc Agricultural Business Administration, MSc Economics**

Mihály Baumstark graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Karl Marx University of Economic Science (1981). He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2011 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired. He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999. He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011. He was the member of the Nomination Committee between 2014 and 2020.
As of 31 December 2020 he held 53,200 ordinary OTP shares.

**Dr. Tibor Bíró**
**College Associate Professor**

Dr. Tibor Bíró graduated from the College of Finance and Accountancy (1974) and from the Karl Marx University of Economics (1978) with a degree in business administration. He has been a certified auditor and chartered accountant since 1986. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. From 1982, he was a professor at the College of Finance and Accounting, and between 1990 and 2013 head of department at the Budapest Business School. Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company.
From 2000 onwards, for a period of ten years, he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and also worked as a member of the Chamber's Education Committee for five years.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been a member of OTP Bank's Remuneration Committee since 2009, and he was the chairman of the Nomination Committee between 2014 and 2020.
As of 31 December 2020 he held 38,600 ordinary OTP shares.

**Tamás György Erdei**
**BSc Business Administration**

Tamás György Erdei graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was chairman and CEO.
Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association.
He is the chairman of the Supervisory Board of the International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been the chairman of OTP Bank's Risk Assumption and Risk Management Committee, and he was a member of the Nomination Committee between 2014 and 2020.

He has been a member of the Board of Directors of OTP Bank Plc. since April 2019 and the Deputy Chairman of the Work-out Committee since October 2019.
He has been Chairman of the Board of Directors at OTP Factoring Ltd. between since December 2019.
As of 31 December 2020 he held 29,657 ordinary OTP shares.

**Dr. István Gresa**
**PhD Business Administration and Economics**

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Karl Marx University of Economic Sciences in 1980. He earned a PhD from the University of Economic Sciences in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division. He was Chairman of the Board of Directors at OTP Factoring Ltd. between 2006 and 2017.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2020 he held 163,658 ordinary OTP shares.

**Dr. Antal Pongrácz**
**PhD Economics**

Dr. Antal Pongrácz graduated from the Karl Marx University of Economic Sciences in 1969 and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank.Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently – up until his retirement on 14 April 2016 – Deputy CEO.
1992-1999: Chairman of the Supervisory Board of Gemenc Zrt., 2002-2010: Chairman of the Board of Directors, 1999-2007: Chairman of the Supervisory Board of British American Tobacco (BAT), 2002-2008: Chairman of the Board of Directors of Casinos Hungary,
Between 2007-2012, he was Chairman of OTP Bank Romania's Supervisory Board.
He has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d. since 12 April 2012, and was Chairman of the Supervisory Board of Splitska banka from 2 May 2017 until its successful integration (on 30 November 2018).
He has been a member of OTP Bank's Board of Directors since 2002. He was Deputy Chairman of OTP Bank's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2020 he held 70,000 ordinary OTP shares.

**Dr. László Utassy**
**Chairman & CEO**
**Merkantil Bank Zrt.**

Dr. László Utassy graduated from the Faculty of Law of Eötvös Loránd University in Budapest in 1978.
He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd.
He has been a member of OTP Bank's Board of Directors since 2001. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee since 2014. He has been Chairman of the Board of Directors of OTP Real Estate Leasing Ltd. since 28 November 2019.
As of 31 December 2020 he held 190,847 ordinary OTP shares.

**Dr. József Vörös**
**Professor, academician**
**University of Pécs**

Dr. József Vörös earned a degree in economics from the Karl Marx University of Economic Science in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, between 2007 and 2011 he was Chairman of the Economic Council of the University of Pécs. He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2020 he held 164,514 ordinary OTP shares.

**Operation of the Board of Directors of OTP Bank Plc.**

Meetings of the **Board of Directors** are convened by the Chairman & CEO by means of a written invitation, in accordance with the prevailing work schedule.

The Chairman & CEO must convene a meeting of the Board of Directors if
- the Board of Directors has passed a resolution calling for an expedited meeting of the Board of Directors;
- At least three members of the Board of Directors initiate a meeting in writing by designating the reason and the purpose, and the agenda items, and by submitting a written proposal in respect of the decision to be made;
- The Supervisory Board or the auditor initiates such a meeting in writing;
- The National Bank of Hungary (hereinafter: MNB or Supervisory Authority) requires it;
- Under the law, a decision must be made about whether to convene an extraordinary General Meeting.

The meetings of the Board of Directors shall be held as necessary, but at least six times a year.

The Board of Directors passes resolutions in accordance with the rules of procedure, by simple majority; minutes must be taken of its meetings, and its resolutions must be documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next meeting of the Board of Directors that follows the successful written vote.

The table below provides a brief overview of the number of Board of Directors meetings held in 2020, and of the attendance at these meetings:

**Board of Directors meetings**
**2020**

| *Date* | *Present* | *Absent* |
|---|---|---|
| *11 February* | *10* | *-* |
| *17 April* | *10* | *-* |
| *09 June* | *10* | *-* |
| *20 July* | *10* | *-* |
| *17 September* | *10* | *-* |
| *13 October* | *10* | *-* |
| *17 November* | *10* | *-* |
| *08 December* | *10* | *-* |

Note:
*In 2020 the Board of Directors met on a total of 8 occasions. In addition, resolutions were passed on 155 occasions by written vote.*

The items on the agenda of the Board of Directors included, among other things, the tasks stipulated by law, such as making a decision on convening, and specifying the agenda of, the General Meeting, the acceptance of the documents submitted to the annual ordinary General Meeting, preparing a proposal concerning the annual report prepared in accordance with the Accounting Act and the use of the after-tax profit, preparation of the report on the management, on the Company's asset/liability position and on its business policy, measures taken to ensure the appropriate management of the Bank's trading books.
Additional, strategic tasks are, for example, the approval and annual review of the Bank's strategy, determination of its business plan, a review of the Bank's asset/liability position based on the quick reports, review of the Bank's liquidity situation, evaluation of changes in the qualified receivables portfolio, approval and review of the regulations that fall within the Board of Director's scope of authority (collateral evaluation, risk assumption, customer rating, etc.), regular review of compliance with the Credit Institutions Act and Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act), compliance, and customer complaints management. Furthermore, the Board of Directors is informed of any undertaking of obligations in excess of HUF 3 billion.
In addition, as part of its operative duties, the Board of Directors may make case-by-case decisions in respect of transactions that exceed the threshold value limit.
During the General Meeting that was originally announced, in accordance with the provisions of Government Decree 102/2020 (IV.10.) on special provisions regarding partnerships and corporations during the state of emergency, for 17 April 2020, cancelled on 26 March 2020 and then reconvened on 30 April 2020, the resolutions regarding the published agenda items were passed by the Board of Directors of the Company acting under the authority of the General Meeting.

### 1.2.2. Supervisory Board

At the Bank, in line with the two-tier governance structure, the Supervisory Board – as a body elected by the General Meeting – performs the oversight of the Company's management, business activity and legal operation and fulfils the responsibilities assigned to it by the Credit Institutions Act.

In accordance with the legal provisions – the principle of a majority of independent (non-executive) members is fully enforced in respect of the composition of the Supervisory Board. The ratio of independent (non-executive) Supervisory Board members (4 persons) to the total number of Supervisory Board members (6 persons) is 67%.

The rules applicable to the appointment and recall of the employee delegate of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.

In order to avoid conflicts of interest, the General Meeting may not appoint the members of the Board of Directors and their close relatives to the Supervisory Board.

The Supervisory Board determines and approves its own rules of procedure.

The liability of the Supervisory Board extends to the supervision of the lawfulness of the Company's operation, its business practices and management, including the control of the Company's internal audit organisation. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination by the employer of the employment of, and well as the determination of the remuneration of, the head of the internal audit organisation.

It is the task of the Supervisory Board to accept and regularly review – within the limits defined by the General Meeting – the principles of the Remuneration Policy.

**Members of the Supervisory Board of OTP Bank Plc.:**

Supervisory Board members are elected by the General Meeting for a term of three years.

| Members of the Supervisory Board | | Beginning of Supervisory Board membership | Beginning of mandate | End of mandate | Independent/ Employee member |
|---|---|---|---|---|---|
| **Chairman** | Tibor Tolnay | 15 May 1992 | 2020 | 2023 | Independent member |
| **Deputy Chairman** | Dr. József Gábor Horváth | 29 April 2005 | 2020 | 2023 | Independent member |
| **Members** | Klára Bella | 12 April 2019 | 2020 | 2023 | Employee delegate |
| | András Michnai | 25 April 2008 | 2020 | 2023 | Employee delegate |
| | Dr. Márton Gellért Vági | 29 April 2011 | 2020 | 2023 | Independent member |
| | Olivier Péqueux | 13 April 2018 | 2020 | 2023 | Independent member |

**Independent members:**

**Tibor Tolnay**
**Chairman of the Supervisory Board**

Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering in 1978 and then in economic engineering in 1983, and subsequently received a degree in economics from the Budapest University of Economics in 1993.
From 1989 to 1992, he was Director of State Construction Company No. 21.
From 1992 to 1994 he was CEO, then from 1994 to 2015 he was Chairman & CEO of Magyar Építő Rt. He has been the managing director of ÉRTÉK Kft. since 1994,
From 2001 to 2015, he was President of the National Association of Building Contractors.
From 2018, President of the National Association of Entrepreneurs and Employers.
and a member of OTP Bank's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member and Deputy Chairman of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014, He has been the chairman of OTP Bank's Nomination Committee since 2020.
As of 31 December 2020 he held 54 ordinary OTP shares.

**Dr. József Gábor Horváth**
**Deputy Chairman of the Supervisory Board**
**Lawyer**

Dr. József Gábor Horváth earned a degree in law from Eötvös Loránd University in Budapest in 1980. From 1983 he worked for the Hungarian State Development Bank. From 1986 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. His main fields of expertise are corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank since 1995, and was a member of MOL Plc's Board of Directors between 1999 and 2014.
He has been Deputy Chairman of OTP Bank's Supervisory Board since 2007. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. He has been a member of OTP Bank's Nomination Committee since 2020. He was a member of the Board of Directors of INA Industrija Nafte d.d. from 2014 to 2018.
As of 31 December 2020 he held 0 ordinary OTP shares.

**Olivier Péqueux**
**Groupama**

He graduated from the Institute of Actuaries of France and Polytechnique School and ENSAE Paris Tech.
He started work in 1998 as an insurance commissioner for the French Insurance Supervisory Authority.
In 2003, he joined the French Ministry of Finance to take part in the reform of the pension laws and the establishment of a pension fund for French civil servants. He then became technical adviser to the French Minister of Health and Pensions.
In 2005, he joined Groupama Group, first in charge of the actuary and accounting department of Gan Patrimoine, a life insurance company, and then in 2007 as Chief Financial Officer of Groupama Paris Val de Loire.
He moved to China in March 2011 as deputy CEO of Groupama China, where he was in charge of finance, actuary matters and investments in the joint venture between Groupama and AVIC.

From 2015 to 2017, he was the CEO of Groupama AVIC. Since March 2018, he has been the International Director of Groupama Assurances Mutuelles. Since September 2020, he has been Deputy CEO of Groupama Assurances Mutuelles.
He has been a member of the Supervisory Board and Audit Committee of OTP Bank since 2018.
As of 31 December 2020 he held no ordinary OTP shares.

**Dr. Márton Gellért Vági**
**General Secretary**
**Hungarian Football Association**

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Karl Marx University of Economic Science (today the Corvinus University of Budapest).
From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. He holds a university doctorate and a PhD in economics. He has authored or co-authored more than 80 research papers, essays and books.
Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO.
Between 2006 and 2010 he was Chairman of the National Development Agency.
In various periods between 2000 and 2010, he was the Chairman of the Board of Directors of Magyar Villamos Művek, Paks Nuclear Power Plant and the National Textbook Publishing House. Between 2002 and 2010, he was a member of the Board of Directors of Földhitel és Jelzálogbank Nyrt., and the Chairman of the Board of Directors for 4 years.
Since 2010 he has been general secretary of the Hungarian Football Association.
He has been a member of UEFA's HatTrick Financial Assistance Committee since 2011.
He has been a member of FIFA's Financial Committee since 2017.
He has been a member of OTP Bank Plc's Supervisory Board since 2011.
He has been a member of OTP Bank Plc.'s Audit Committee since 2014.
He has been a member of OTP Bank Nyrt's Nomination Committee since 2020.

As of 31 December 2020 he held 2,000 ordinary OTP shares.

**Employee delegates:**

**Klára Bella**
**Director**
**Corporate Directorate**

She graduated from the College of Finance and Accountancy and later received a degree from the Budapest University of Economic Sciences.
From 1992 to 1994 she worked as a clerk at the Fertőszentmiklós branch of OTP Bank.
From 1994 to 1995 she was a lending consultant at Polgári Bank.
From 1995 to 1996 she worked as a risk manager at the Central Branch of OTP Bank.
From 1996 to 1997 she was a credit authorizer in the Credit Approval and Risk Management Division.
From 1997 to 2010 she was Deputy Executive Director at the Central Branch.
From 2010 to 2016 she was Director at the Central Branch.
Between 2017 and 2020, she was Director of the Corporate Directorate.
Since 1 July 2020, she has been the Director of the Corporate Department of the Special Financing Directorate.
She has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 12 April 2019.
As of 31 December 2020 she held 93 ordinary OTP shares.

**<u>András Michnai</u>**
**Managing Director**

András Michnai graduated in 1981 from the College of Finance and Accounting with a degree in business administration.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. Following this he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy management director, he participated in the central coordination of the branch network. Between 2005 and 2014 he headed the Bank's Compliance Department as a managing director. He further expanded his professional skills, earning a Master's degree at the Budapest Business School, and is a registered tax advisor.
He has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 2008. He has been Secretary of OTP Bank's Employees' Trade Union since December 2011.
As of 31 December 2020 he held 100 ordinary OTP shares.

**Operation of the Supervisory Board of OTP Bank Plc.**

As stipulated in the Articles of Association, the **Supervisory Board** meets at least six times a year.

The meetings of the Supervisory Board are convened by the chairman. The meetings must also be convened if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing, indicating the objectives and reasons for the meeting.

The Supervisory Board passes its resolutions by simple majority; minutes are taken of its meetings, and its resolutions are documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next Supervisory Board meeting that follows the successful written vote.

The table below provides a brief overview of the number of Supervisory Board meetings held in 2020, and of the attendance at these meetings:

**<u>Supervisory Board Meetings</u>**
**<u>2020</u>**

| ***Date*** | ***Present*** | ***Absent*** |
|---|---|---|
| *27 February* | *5* | *1* |
| *10 June* | *5* | *1* |
| *16 September* | *5* | *1* |
| *15 October* | *5* | *1* |
| *19 November* | *6* | *-* |
| *08 December* | *6* | *-* |

<u>Note:</u>
*In 2020 the Supervisory Board met on a total of 6 occasions. In addition, resolutions were passed on 108 occasions by written vote.*

The main function of the Supervisory Board is to see to it that the Bank has a comprehensive and effectively operating system of oversight and control, and to manage the internal audit organization. It is also responsible for verifying the financial institution's annual and interim financial statements, making a suggestion to the annual General Meeting for the acceptance of the documents, reports and annual reports verified by it and submitted to the annual General Meeting, as well as for the acceptance of the proposal for the use of after-tax profits, and the person and remuneration of the auditor to be elected.
The tasks concerning the management of the internal audit unit includes the acceptance of the audit plan at the bank-group level, and the discussion of the report at the bank-group level of the audits performed by the internal audit units and of the performance of the audit tasks at the bank-group level.
The principles and frameworks of the long-term remuneration and incentives system for employees in senior positions are determined by the General Meeting. With effect from 2014, the principles of the Bank Group's Remuneration Policy are approved and reviewed by the Supervisory Board, while the Board of Directors is responsible for the annual internal audit of the Policy.
Additional agenda items of the meetings of the Supervisory Board included: compliance with the provisions of the Credit Institutions Act, the operation, at group level, of the Unified Internal Audit System and the further development of the system, a review of the volume and composition of the qualified receivables portfolio, annual compliance report, the Safeguarding officer's report on the protection of customers' financial assets, etc.

### *1.3 Audit Committee*

The Audit Committee, consisting of independent members of the Bank's Supervisory Board elected by the General Meeting, is a body that assists the work of the Supervisory Board in relation to the monitoring of the financial reporting system, selection of the auditor, and cooperation with the auditor. Under its powers it monitors the internal audit, risk management and reporting systems, as well as the auditor's activity. The Audit Committee reviews and monitors – in respect of the entire OTP Bank Group – the auditor's independence, with special regard to the performance of any non-prohibited non-audit services to be provided by the auditor in addition to its audit activity. Furthermore, it fulfils the audit committee tasks of several domestic subsidiary banks.

**Members of OTP Bank Plc's Audit Committee:**

The Audit Committee consists of four members who are elected for a term of three years. The Audit Committee elects a chairperson from among its own members.

| Members of the Audit Committee | | Beginning of Audit Committee membership | Beginning of mandate | End of mandate |
|---|---|---|---|---|
| **Chairman** | Dr. József Gábor Horváth | 21 September 2007 – 29 April 2011<br>25 April 2014 | 2020 | 2023 |
| **Deputy Chairman** | Tibor Tolnay | 21 September 2007 – 29 April 2011<br>25 April 2014 | 2020 | 2023 |
| **Members** | Dr. Márton Gellért Vági | 25 April 2014 | 2020 | 2023 |
| | Olivier Péqueux | 13 April 2018 | 2020 | 2023 |

**Dr. József Gábor Horváth**
**Chairman of the Audit Committee**
(For his CV, see the section entitled 'Management bodies')

**Tibor Tolnay**
(For his CV, see the section entitled 'Management bodies')

**Olivier Pégueux**
(For his CV, see the section entitled 'Management bodies')

**Dr. Márton Gellért Vági**
(For his CV, see the section entitled 'Management bodies')

## Operation of OTP Bank Plc.'s Audit Committee

The Audit Committee meets at least two times a year, in accordance with its current rules of procedure.[1]During 2020, in view of the pandemic situation, the Audit Committee passed its resolutions during a meeting on one occasion and through written votes on 16 occasions.

The table below provides a brief overview of the number of Audit Committee meetings held in 2020, and of the attendance at these meetings:

**Audit Committee meetings**
***2020***

| *Date* | *Present* | *Absent* |
|---|---|---|
| *08 December* | *4* | *-* |

Note:
*In 2020 the Audit Committee met on a total of 1 occasion. In addition, resolutions were passed on 39 occasions by written vote.*

The items on the agenda of the Audit Committee meetings included, among others, a briefing on the profit approved by the Company's auditor, the Company's non-consolidated financial statements prepared in accordance with International Financial Reporting Standards, the report on the financial statements and on the proposal regarding the distribution of the profit, and a recommendation on the selection of the Company's auditor, approval of the person nominated to be responsible for the audit, and the determining of his/her remuneration.
The proposals submitted by domestic subsidiary banks as well as the quarterly reports on contracts for non-prohibited auditor's services, have also been included in the agenda of the Audit Committee.

[1] With reference to the relevant sections of Government Decree 102/2020 (IV.10.) on special provisions regarding partnerships and corporations during the state of emergency, Act LVIII of 2020 on the transitional rules and epidemiological preparedness related to the cessation of the state of danger, and Government Decree 502/2020 (XI.16.) on the reintroduction of the special provisions regarding partnerships and corporations during the state of emergency, in view of the pandemic situation, corporate bodies are (were) also allowed to pass their decisions in writing during the duration of the emergency.

**Remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee**

Determining the remuneration of the Board of Directors, the Supervisory Board and the Audit Committee is in the competence of the Company's supreme body, the General Meeting.

### *1.4. The operation of the committees*

A key consideration in the establishment of the composition of special and standing committees is the election of members who are capable of taking a position in all fields and professional matters within the competence of the committee.

1.4.1. Committees that operate with the participation of external members of the Company's Board of Directors and the non-executive members of the Supervisory Board:

Remuneration Committee
The Remuneration Committee, established by the Board of Directors and meeting on a continuous basis, prepares proposals to the management bodies for elaborating and monitoring the guidelines and system of remuneration, as well as for specific remuneration decisions.
The Remuneration Committee exercises its authority as a body.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

| Members of the Remuneration Committee | |
|---|---|
| **Chairman** | Dr. József Vörös |
| **Members** | Dr. Tibor Bíró |
| | Mihály Baumstark |

Nomination Committee[2]
The Nomination Committee, which was established by the Board of Directors and operates on a continuous basis, elaborates the principles for selection of the members of the Bank's executive bodies, and nominates candidates accordingly, and also makes recommendations regarding the basic principles and framework for the testing of compliance with the requirements prescribed in respect of members of the executive bodies of the Bank and the Bank Group, and in respect of employees in management and key positions.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

| Members of the Nomination Committee until 19 July 2020 | |
|---|---|
| **Chairman** | Dr. Tibor Bíró |
| **Members** | Mihály Baumstark |
| | Tamás György Erdei |

| Members of the Nomination Committee from 20 July 2020 | |
|---|---|
| **Chairman** | Tibor Tolnay |
| **Members** | Dr. József Gábor Horváth |
| | Dr. Márton Gellért Vági |

[2] The personnel changes in the Nomination Committee were justified by the change in the regulatory environment, as, pursuant to Section 112 (2) of the Credit Institutions Act, the members of the nomination committee may now be elected from the members of the management body with supervisory powers who do not perform executive duties in the credit institution concerned, while previously from the members of the management body with management powers, who were not employed by the credit institution.

Risk Assumption and Risk Management Committee
This committee, which was established by the Risk Assumption and Risk Management Committee and the Board of Directors and operates on a continuous basis, fulfils a decision support function, commenting on the Bank's risk assumption strategy and propensity for risk, and providing support for the supervision of implementation of the risk assumption strategy.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

| Members of the Risk Assumption and Risk Management Committee | |
|---|---|
| **Chairman** | Tamás György Erdei |
| **Members** | Dr. László Utassy |
| | Dr. József Vörös |

1.4.2. **Special committee:**

Ethics Committee
A special committee of the Bank established by the Board of Directors – and consisting of delegated members thereof – presided over by one of the non-executive members of the Board of Directors.
The committee gives guidance on compliance with standards of ethical conduct through its position statements issued in general and specific cases, and its decisions serving to assist with interpretation. The committee also makes decisions in the event of reports, relating to the Bank, made via the ethical complaints hotline, or investigates the reports and makes a decision in a second-tier procedure.
Its procedural rules are approved by the committee itself.

| Ethics Committee | |
|---|---|
| **Chairman** | Mihály Baumstark |

1.4.3. **Permanent committee** established by the Bank's Management in support of management functions:

Management Committee

The Management Committee is a permanent committee established by the Board of Directors. It is a forum that directly supports the work of the Chairman & CEO and is the supreme management body of the Bank. It has decision making power in the issues that are relegated into its scope of authority by the Organisational and Operational Regulations, it takes a preliminary position and prepares decisions in the majority of issues that are discussed by the General Meeting, the Board of Directors and the Supervisory Board, and plays a coordinating role in the senior management of the Bank.

The Management Committee also ensures that the Bank can respond flexibly and effectively to market and regulatory factors and that the Bank as a whole can act in a coordinated fashion.

The Management Committee performs its work on the basis of a six-month work schedule approved by the committee itself, and meets once a month (and on an ad-hoc basis as and when necessary). Their order of business is determined by its procedural rules.

| **Members of the Management Committee** | |
|---|---|
| **Chairman** | Dr. Sándor Csányi |
| **Members** | Dr. Zsolt Barna[3] (until 20 July 2020) |
| | László Bencsik |
| | Tibor András Johancsik |
| | György Kiss-Haypál |
| | Antal György Kovács |
| | László Wolf |
| | Dr. Bálint Csere |

The following additional permanent committees operate within the Company for the performance of specific tasks:

- Asset-Liability Committee (ALCO)
- Product Development, Sales and Pricing Committee (TÉÁB)
- International Product Development, Sales and Pricing Committee (NTÉÁB)
- Work-Out Committee (WOB)
- Credit and Limits Committee (HLB)
- IT and Operations Board (ITOB)
- Group Operational Risk Management Committee (OpRisk)
- Group Impairment Committee (ÉVB)
- Committee on the Prevention of Money Laundering (PMB)

[3]The Management Committee membership of General Deputy CEO Dr. Zsolt Barna terminated on 20 July 2020.

**Asset-Liability Committee**

The Asset-Liability Committee (ALCO) is a standing committee established by the Board of Directors, which acts as the Bank's governing body in asset-liability management matters of the highest level.

| Members of the Asset-Liability Committee | |
|---|---|
| **Chairman** | László Bencsik |
| **Deputy Chairman** | László Wolf |

**Product Development, Sales and Pricing Committee**

The Product Development, Sales and Pricing Committee (TÉÁB) is a standing committee established by the Board of Directors. As a committee it deals with the products and services of the Bank and its domestic subsidiaries sold through the Bank's sales channels, including their normative pricing and their distribution through the various sales channels available, as well as with major campaigns.

| Members of the Product Development, Sales and Pricing Committee | |
|---|---|
| **Chairman** | Antal György Kovács |
| **Deputy Chairman** | László Wolf |

**International Product Development, Sales and Pricing Committee**

The International Product Development, Sales and Pricing Committee (NTÉÁB) is a standing committee established by the Board of Directors which deals with matters related to products and services sold by the Bank's foreign subsidiaries, including their pricing and sales.

| Members of the International Product Development, Sales and Pricing Committee | |
|---|---|
| **Chairman** | Antal György Kovács |
| **Deputy Chairman** | László Wolf |

**Work-Out Committee**

The Work-Out Committee (WOB) is a standing committee established by the Board of Directors. Its responsibility is to approve the collection strategy and submit it to the Board of Directors. The Work-Out Committee exercises decision-making power in the enforcement of claims the recovery of which is at risk in the portfolio of the Bank, and right of consent concerning such in the portfolios of the Bank's foreign subsidiaries, Merkantil Bank Zrt. and its subsidiaries, as well as OTP Factoring Ltd. and its foreign subsidiaries. The Work-Out Committee also acts as an NPL committee in charge of the general management of non-performing exposures, in the framework of which it pre-approves, reviews and supports the Bank's NPL strategy and supports its implementation in practice.

| Members of the Work-Out Committee | |
|---|---|
| **Chairman** | Tamás György Erdei |
| **Deputy Chairman** | János Szász |

**Credit and Limits Committee**

The Credit and Limits Committee (HLB) is a standing committee established by the Board of Directors. The HLB's core competence covers the Bank's and the Bank Group's regulatory and methodological responsibilities related to lending and credit risk management, as well as decisions concerning the assumption of credit risk vis-à-vis of customers, and in case of Bank Group members that assume credit risk, it entails the exercise of the power of decision or consent concerning this area of responsibilities.

| Members of the Credit and Limits Committee | |
|---|---|
| **Chairman** | György Kiss-Haypál |
| **Deputy Chairman** | László Wolf |

**IT and Operations Board**

The IT and Operations Board (ITOB) is a standing committee set up by the Board of Directors that provides guidance concerning the investment strategy within the sphere of competence of the Bank Group's IT Division in order to ensure the prudent and secure operation of the Bank Group.

| Members of the IT and Operations Board | |
|---|---|
| **Chairman** | Tibor Johancsik |
| **Deputy Chairman** | László Bencsik |

**Group Operational Risk Management Committee**

The Group Operational Risk Management Committee (OpRISK) is a standing committee set up by the Board of Directors that monitors changes in operational risks, operational risk management activities and business continuity planning activities and ensures that regulatory risk management solutions required by law and expected by the management are in place and that reporting pathways are working properly.

| Members of the Group Operational Risk Management Committee | |
|---|---|
| **Chairman** | György Kiss-Haypál |
| **Deputy Chairman** | Gábor Horváth |

**Group Impairment Committee**

The Group Impairment Committee (ÉVB) is a standing committee established by the Board of Directors. The sphere of competence of the Committee includes Bank Group-level decisions about the methodological issues involved in the group valuation used in impairment recognition under IFRS 9.

| Members of the Group Impairment Committee | |
|---|---|
| **Chairman** | László Bencsik |
| **Deputy Chairman** | György Kiss-Haypál |

**Committee on the Prevention of Money Laundering**

The Committee on the Prevention of Money Laundering (PMB) is a standing committee established by the Board of Directors that makes decisions about the sustainability of a business relationship or the approval of the establishment of a business relationship that involve customers concerned with the arising of specific money laundering risks.

| Members of the Committee on the Prevention of Money Laundering | |
|---|---|
| **Chairman** | Dr.Bálint Csere |
| **Deputy Chairman** | Gábor Bucsek |

Permanent committees are the Bank's bodies in charge of preparing and making decisions as well as conducting consultations. The task of permanent committees is to prepare and make decisions needed for the performance of the Bank's business activities, for minimising the Bank's risks and for ensuring its operation. Decisions to establish permanent committees are made by the Bank's Board of Directors. The members of the committees are persons in charge of the professional areas concerned, who have exceptional expertise and all-round competence in the given matter. The chairpersons of the committees are nominated by the Chairman & CEO, and their rules of procedure – with the exception of the Management Committee – are approved by the head of the Legal Directorate. The Management Committee approves its own procedural rules. In respect of resolutions, the Asset-Liability Committee, the Credit and Limits Committee, the Group Operational Risk Management Committee, the International Product Development, Sales and Pricing Committee, the Work-Out Committee, Committee on the Prevention of Money Laundering and the Group Impairment Committee operate on the principle of simple majority, while in the case of the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Committee, decisions are made by a simple majority of votes but the chairperson has a right of veto.

### *1.5. Members of OTP Bank Plc.'s senior management (with CV):*

**Dr. Sándor Csányi**
**Chairman & CEO**
(For his CV, see the section entitled 'Management bodies')

**Dr. Zsolt Barna**
**General Deputy CEO until 20 July 2020**
**Group Governance and Operations Division**

Dr. Zsolt Barna started his professional career at the State Financial and Capital Market Supervisory Commission, and rising through the ranks he became managing director of the Financial and Capital Market Supervisory Directorate in 2006. In this position, he was responsible for the supervision of banks and banking groups. Between 2006 and 2010, he was a member and permanent invitee to the CESR's, CEBS's management bodies and professional committees. From 2008 to 2009 he was one of the decisive figures in crisis management activities conducted in the banking sector.
Between 2010 and 20 July 2020, he held the following offices at the OTP Group:

- He was initially the Chairman of the Board of Directors of CKB Bank in Montenegro, where he was in charge or the bank's reorganisation.
- He was Chairman & CEO of OTP Real Estate Investment Fund Management Ltd. between 8 June 2016 and 31 August 2018.
- From September 2016 to 31 August 2018, he was the Chairman of the Board of Directors of OTP Fund Management Ltd.
- He was Chairman of the Board of Directors of OTP Real Estate Investment Fund Management Ltd. between 8 June 2016 and 20 July 2020.
- Between 10 September 2018 and 29 March 2019, he was Chairman of the Supervisory Board of OTP Real Estate Ltd.
- Between 1 September 2018 and 20 July 2020, he was the General Deputy CEO in charge of OTP Bank's Group Governance and Operations Division. Between 29 March 2019 and 20 July 2020, he was Chairman of the Board of Directors of OTP Real Estate Ltd.
- Between 13 December 2019 and 20 July 2020, he was a member of the Board of Directors, and between 16 December 2019 and 20 July 2020, he was Chairman of the Board of SKB Bank in Slovenia.

**László Bencsik**
**Chief Strategic and Financial Officer, Deputy CEO**
**Strategy and Finance Division**

In 1996, László Bencsik graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.
Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company.
He joined OTP Bank in 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning.
He has been deputy CEO of OTP Bank, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank.
As of 31 December 2020 he held 43,037 ordinary OTP shares.

**Tibor András Johancsik**
**Deputy CEO**
**IT Division**

Mr. Tibor András Johancsik graduated from the Budapest Technical University with a degree in electrical engineering in 1988, and then in 1993 earned a further degree in foreign trade business administration from the College of Foreign Trade. He began his professional career at as a researcher in the field of industrial automation at the Hungarian Academy of Sciences Institute for Computer Science and Control (MTA SZTAKI). From 1994 onwards he held management positions at the Hungarian subsidiaries of international IT development companies (ICL, Unisys, Cap Gemini).
From 2001 he worked as an advisor in the fields of IT and organisational development, then from 2003, as managing director of JET-SOL Kft., he participated in the development of numerous systems in Hungary and abroad.
Since 24 February 2016 he has been Deputy CEO in charge of OTP Bank's IT Division.
He has been Chairman of the Supervisory Board of Monicomp Zrt. since 1 April 2016.
As of 31 December 2020 he held 31,055 ordinary OTP shares.

**György Kiss-Haypál**
**Deputy CEO**
**Credit Approval and Risk Management Division**

György Kiss-Haypál is a qualified economist. He graduated from the Budapest University of Economic Sciences in 1996. He started his career as a project finance analyst for Budapest Bank Plc., and by 2007 he had been appointed head of the bank's risk management department. Between 2002 and 2006 he also worked in Ireland as corporate credit risk portfolio manager for GE Consumer Finance, and in Austria as GE Money Bank's consumer loans portfolio manager.
From 2015 he was deputy head of the Credit Approval and Risk Management Division of OTP Bank Plc., and was then appointed acting head of the Division.
Since 3 May 2017, he has been deputy CEO of the Credit Approval and Risk Management Division.
As of 31 December 2020 he held 7,592 ordinary OTP shares.

**Antal György Kovács**
**Member of the Board of Directors, Deputy CEO**
**Retail Division**
(For his CV, see the section entitled 'Management bodies')

**László Wolf**
**Member of the Board of Directors, Deputy CEO**
**Commercial Banking Division**
(For his CV, see the section entitled 'Management bodies')

### *1.6. Internal control system*

The appropriate functioning of the internal control system is provided for, at bank-group level, in accordance with the relevant statutory regulations and in keeping with the relevant Recommendations.
The internal control system, alongside responsible corporate governance, is a cornerstone of the internal lines of defence that promote prudent, reliable and effective operation in accordance with the statutory regulations and internal regulations, protects the economic interests and social objectives of the customers and the owners and ensures continued trust in the Company.
The internal control functions are independent of each other and of the areas they supervise and audit. It is a basic expectation concerning the operation of internal control functions that they should operate in a way to provide support to the senior management in making sound decisions.

**Internal audit**

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system covers all processes, organisational units, business lines and activities, including outsourced activities.
The Company's internal audit system consists of several modular control levels. The elements of the internal audit system are comprised of in-process controls and management controls, and an independent internal audit unit and management information system.

As one of the internal lines of defence, the independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The internal auditing organisation is structured in a way that ensures the performance of owner's audits in the centre and the branch network of the Company, and at the foreign and Hungarian subsidiaries, as well as the professional supervision of the subsidiaries' own internal audit organisations in Hungary and abroad.

OTP Bank Plc. has developed and applies such a unified internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the

other main risk exposures, it treats the making of reports and the controlling of data as a priority, and takes into account the Company's prevailing strategic priorities.
The independent internal audit organisation has unrestricted access to the information, documents and data needed to carry out the audits, and receives continuous information on any and all changes in the structure, risks and priorities of the group.

The internal audit organisation makes independent group-level reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a summary account of the audits conducted by the Group's internal audit organisations, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks set out in the group-level annual plan, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

Once a year, the internal audit organisation draws up, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions and, in line with the provisions of the Credit Institutions Act, reports, once a year, to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audits, and on the review of compliance with IT and other technical conditions needed for the audits.

**Risk management**

The basis for effective group-level risk management is the operating of a standardised, 'OTP-compliant' organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report and the Information that is to be disclosed to the public under Basel II describe the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the bank-group risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market, liquidity and operational risk management system at group level which complies with the expectations of the Supervisory Authority and local conditions. The Bank Group pays special attention to the management of ESG risks[4] and the implementation of climate protection aspects in business practice. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.
The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles, guidelines and development programmes of risk assumption.
With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Risk Assumption and Risk Management Committee, Group Operational Risk Committee).
The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations,

[4] E: Environmental; S: Social; G: Governance

or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

The business continuity framework is intended to provide for the continuity of services. Developed on the basis of international methodologies, the lifecycle model includes process evaluation, action plan development for critical processes, the regular review and testing of these, as well as related DRP activities. The activity is overseen by the Group Operational Risk Management Committee.

**Compliance**

In accordance with EU regulations, Hungarian statutory provisions and supervisory recommendations, an independent organisational unit (the Compliance Directorate) operates at the Company, with the task of exploring and managing compliance risks. This function is supported by the appropriate regulatory documents: a compliance strategy, policy, regulations pertaining to the management of each compliance risk, as well as a work plan. The purpose of the compliance policy is to set out a summary of the Bank's key principles related to compliance, and to mark out the main strategy relating to independent compliance activities, which together facilitate and support the Bank's compliant, lawful, secure and prudent operation. The compliance policy is approved by the Board of Directors and the Supervisory Board of the Bank. The Bank's senior management is responsible for the implementation in practice of the compliance policy.
The Compliance Directorate prepares a report quarterly to the Board of Directors, and annually to the Supervisory Board, about the Bank's and the Bank Group's compliance activities and position.

**Auditor**

The General Meeting has the authority to elect the company performing the audit, and to approve the nomination of the member responsible for the audit.

Our Company was audited by Deloitte Auditing and Advisory Kft. (company reg. no. 01-09-071057) in respect of 2020. Last year the auditor did not perform any activity that might have compromised its independence.
The Audit Committee makes a decision on any non-audit service provided to the auditor, and the related contract may only be concluded with the Committee's approval. The Audit Committee receives quarterly reports on the composition and the value of any non-auditor contracts, ensuring the independence of the auditor.
The Board of Directors must inform the Company's General Meeting and Supervisory Board if the auditor is given any other material mandates. In addition, if warranted, the Company's Board of Directors, Supervisory Board and other boards may use the services of an external consultant as well.
With regard to the provisions of Article 17 of Regulation (EU) No 537/2014 of the European Parliament and of the Council ("Regulation"), Deloitte Könyvvizsgáló és Tanácsadó Kft. may perform the duties of auditor in the 2020 business year for the last time. With this in mind, under the control and subject to the decision of the Audit Committee, in 2019 our Company conducted a tender in accordance with the formal and substantive requirements of the Regulation. Based on the proposal of the Tender Committee conducting and coordinating the tender, the Audit Committee has accepted the evaluation regarding the bids received in connection with the tender for *the auditor to be appointed from the 2021 financial year* and its compliance with applicable law.

In the course of developing its accounting policy and accounting procedures, the Company establishes internal controls that reliability assure fulfilment of the Company's objectives in the interest of ensuring the reliability of financial reporting, the effectiveness and efficiency of

the various corporate operations, consistency with the latest statutory provisions, and full compliance with the reporting requirements towards the individual regulatory bodies. The detailed tasks relating to the production or reports and to accounting audits are regulated in internal regulatory documents, the scope of which extends to all of the Bank's organisational units involved in the compilation of the financial statements.
An internal regulatory document provides instructions on the account-closing and reporting tasks related to the Company's interim (monthly, quarterly, half-yearly) and annual financial statements, and sets out in a consolidated format the account-closing operations, tasks and reporting actions to be performed monthly, quarterly, half-yearly and at the end of the year, specifying the deadline for completion of the tasks and the persons responsible.
Another regulatory document instructions on the inventory-taking and reconciliation of general ledger accounts serving the temporary recording of items that, at the time they arise, cannot for various reasons be stated immediately in actual asset or liability accounts, or in accounts that serve to record off-balance sheet items.
Pursuant to the provisions of the Accounting Act (IFRS), the financial statements must be supported with an inventory report. An internal regulatory document sets out in detail the tasks related to inventory-taking, in the interest of assuring the authenticity of the balance sheet through the accurate valuation of assets and liabilities, and ensuring the auditing of records, and through this a strengthening of documentary discipline, the protection of property, and the identification of any depreciated inventory stock and assets that are no longer in use.
In addition to the foregoing, the Company has elaborated and applies detailed accounting procedures, and continuously adapts the related accounting rules in relation to individual new products and activities. The individual internal accounting documents relating to accounting are regularly (annually) reviewed, and updated where necessary. The legal, internal auditing and compliance units also participate in the elaboration and amendment of the Bank's internal regulatory documents.

### *1.7. Disclosure of information*

Providing regular, authentic information is essential if the shareholders and the other participants in the capital market are to make sound decisions, and the way in which the Company discloses information also has an impact on its reputation.

The Company performs its disclosures in strict compliance with the provisions of Act V of 2013 on the Civil Code (hereinafter: Civil Code), the Capital Market Act, the Credit Institutions Act, Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and the Regulations governing their Activities, Act C of 2000 on Accounting, Ministry of Finance Decree 24/2008 (VIII. 15), Act LXVII of 2019 on the encouragement of long-term shareholder engagement and modification of certain acts with the purpose of legal harmonization, as well as the relevant Regulations of the BSE. In addition, the Company has effective internal regulations that ensure compliance with the obligation to disclose information.

The aforementioned regulations ensure that all material information pertaining to the Company and having a bearing on the price of the Company's shares is published accurately, in full, and in good time.

The Board of Directors describes its business and strategic goals of the given year at every ordinary General Meeting. The proposal to the General Meeting is published by the Company on the website of the Budapest Stock Exchange in accordance with its rules of disclosure and the provisions of the relevant regulations of the BSE.

The Company, in accordance with the statutory regulations, publishes on the Company's website and in its Annual Report the professional careers of the members of the Board of Directors, the Supervisory Board and the management.

The proposal pertaining to the remuneration of the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board constitute a part of the proposals of the General Meeting.

The Company has detailed risk management regulations that include every type of risk (liquidity, market, country, counterparty, credit, operational, compliance) which are consistent with the statutory regulations pertaining to prudential banking operation. The Annual Report provides information about the Company's risk management practices, the relevant limits and compliance with the limits.

The Company has detailed internal regulations pertaining to insiders and potential insiders that fully comply with the restrictions and prohibitions regulated in detail by the Capital Market Act. In addition, the guidelines pertaining to securities trading by insiders are also available on the website. All transactions involving the Company's shares performed by the members of the Board of Directors and the Supervisory Board are published by the Company in accordance with the rules on disclosure, and the shareholdings in the Company of the officers of the Company (number of shares) are published in the Company's Annual Report.

The Board of Directors has assessed the effectiveness of information disclosure processes in 2020, and found them to be satisfactory.

### *1.8. Overview of the exercising of shareholders' rights*

Participation in the General Meeting and voting rights

Shareholders may exercise their right of participation and their voting rights at the General Meeting, in person or by proxy.

The letters of proxy must be set forth in a notarised deed or a private document of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the authenticated deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting.

The letters of proxy must be handed over at the location specified in the invitation to the General Meeting, within the allotted time. The authorisation shall be valid only for a General Meeting or for a specified period not exceeding twelve months. Unless otherwise regulated, the authorisation shall be valid for the continuation of a suspended General Meeting and for re-convened General Meetings by reason of the lack of quorum. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

A condition of participation and voting in the General Meeting is that

- the shareholding as at the time of the shareholder matching procedure is corroborated by the result of the shareholder matching procedure;
- the owner of the shares be validly recorded in the Company's Share Register by the time of its closure as per point 8.4. of the Company's Articles of Association (hereinafter: Articles of Association); and
- the shareholder's shareholding or voting right does not violate the statutory provisions or the provisions of the Articles of Association, which the Company ascertains through a check following receipt of the result of a ownership verification process from KELER Central Depository Ltd. (hereinafter: KELER Zrt).

Voting at the General Meeting is performed using a computer, with a voting device. The shareholder or the shareholder's proxy, provided that he or she is attending lawfully in accordance with the provisions of the Articles of Association, may collect the voting device after certifying his or her identity and signing the attendance register at the venue of the General Meeting. If due to technical reasons voting is not possible with the voting device, the voting will take place with the help of voting books. Any given shareholder (including a shareholder represented by a shareholder's proxy) is only entitled to use a single voting device (book of voting slips).

The rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between The Bank of New York and the Company.
Further details are contained in the Articles of Association published on our website.

### *1.9. Brief description of the rules related to the conducting of the General Meeting*

The Company requests a shareholder-matching procedure for the date of the General Meeting (including any repeated General Meeting), as a corporate event, from the KELER Zrt. The ownership verification process may take place only in the period between the 7th and 5th trading day at the stock exchange prior to the General Meeting (including any repeated General Meeting). The rules pertaining to the ownership verification process are set out in the latest effective regulations of KELER Zrt.

The Company, at 18:00 Budapest time on the second working day before the General Meeting (or repeated General Meeting), deletes all the data in the Share Register and at the same time registers the results of the ownership verification process in the Share Register, and closes it with the results of the shareholder identification. After this any entry related to the shareholder's holding may only be made, at the earliest, on the working day following the closure of the General Meeting or following the day of the non-quorate General Meeting..

The General Meeting must be announced in the manner specified in respect of announcements made by the Company, at least 30 days before the projected date of the General Meeting, unless otherwise stipulated in the Civil Code and the Credit Institutions Act. The (extraordinary) General Meeting, that is to decide on a capital increase necessary in order to avoid the proceeding referenced in Article 135 (2) of the Credit Institutions Act, can be announced at least 10 days before the projected date of the meeting.

The invitation must include the following:

a) the Company's official name and registered office;
b) the date and place of the General Meeting;
c) the manner in which the General Meeting is to be held;
d) the agenda of the General Meeting;
e) the provisions contained in section 8.5 of the Bylaws, with the reminder that shareholders may participate in and vote at the General Meeting only in compliance therewith;
f) information about the place and date of the handing over of the letters of proxy;
g) in the event that there is no quorum, the place and date of the reconvened General Meeting
h) the time of ownership verification process and closure of the Share Register,
i) the fact that in order to exercise shareholder's rights the shareholder must be listed in the Share Register at the time of its closure, but subsequent to this the shares may be freely traded without this affecting the ability to exercise shareholder's rights,
j) the conditions, stipulated in the Articles of Association, for exercising the shareholder's right to request information,
k) the conditions, stipulated in the Bylaws, for exercising the shareholder's right to supplement the agenda of the General Meeting, and
l) information regarding the time, place and means (including the address of the Company's website) of accessing the motions and proposed resolutions on the agenda of the General Meeting.

Questions not listed on the agenda may be discussed by the General Meeting only if all shareholders are present and they give their unequivocal consent thereto.

The General Meeting is regarded as having a quorum if the votes of the attending shareholders represent more than one-third of the total votes embodied by shares entitling the holder to vote.

If a duly convened General Meeting does not have a quorum, then the repeated General Meeting – convened for the time and date and venue specified in the announcement that is published in accordance with section 8.13 of the Articles of Association – shall have a quorum in respect of the agenda items set forth in the invitation irrespectively of the extent of the voting rights represented by those in attendance. If the agenda of the General Meeting includes a proposal relating to the withdrawal of the shares from any regulated market (hereinafter: delisting), then the repeated General Meeting shall have a quorum in respect of such agenda item if shareholders representing more than half of the votes embodied by the shares conferring voting rights are in attendance.

If a General Meeting that has a quorum cannot pass a resolution in respect of all the items on the agenda, it may decide to suspend the meeting and to convene a follow-up General Meeting, while indicating the new time and place. The General Meeting may only be suspended once, and the follow-up General Meeting must be held within 30 days of the suspension.

In respect of the quorum of a suspended and then reconvened General Meeting (follow-up General Meeting), the general rules apply. The follow-up General Meeting may pass decisions only in respect of the announced agenda items of the original General Meeting in respect of which the original General Meeting did not make a decision.

The General Meeting is chaired by the Chairman of the Board of Directors or another person designated by the Board of Directors who

- opens the General Meeting;
- appoints the person responsible for taking minutes;
- determines whether the General Meeting has a quorum;
- gives and revokes the right to speak;
- formulates resolution proposals and puts them to the vote;
- announces the result of the vote on the basis of the results indicated by the vote counters;
- announces the intermission; and
- closes the General Meeting.

Prior to the opening of the General Meeting, shareholders who have voting devices may notify the Chairman of the General Meeting in writing if they would like to speak in relation to any of the agenda items. The comments made by the shareholders may not be on a topic that is different from the designated agenda item. The Chairman of the General Meeting must grant the right to speak to persons who have indicated their desire to speak in accordance with the above.

The Chairman of the General Meeting may determine the order in which the comments on the given agenda item will be heard, may grant any person the right to speak or may retract such right, with the proviso that the right to speak may be retracted from a shareholder who has indicated his/her wish to speak in writing only if the shareholder's comments depart from the given agenda item despite a warning in this regard. The Chairman of the General Meeting may prohibit the recording in the minutes of comments that are made after the right to speak is retracted, and may terminate the availability of the technical conditions (microphone) for making such comments.

The Chairman of the General Meeting may decide to hold the General Meeting in private, and, with the exception of the members of the Board of Directors, the managing directors specified in the Credit Institutions Act, the members of the Supervisory Board, the auditor, shareholders with voting terminals, and the representatives of such shareholders as well as the representatives of the MNB and the BSE, he may exclude anyone from attending the General Meeting.

The General Meeting passes its resolutions, unless the Articles of Association stipulate otherwise, through a simple majority of the votes of the attending shareholders.

Decisions at the General Meeting are made by open vote.

In its first resolution, the General Meeting selects, from the list proposed by the Chairman of the General Meeting, the attending shareholders who will act as the authenticator of the minutes and the vote counters. In the case of an unsuccessful vote the Chairman of the Meeting must submit a new proposal.

Minutes must be taken of the General Meeting, which must include the following:

- the Company’s official name and registered seat;
- the date and place of the General Meeting and the manner in which it is held;
- data necessary for determining whether the General Meeting has a quorum and changes in the number of persons attending;
- the name of the Chairman of the General Meeting, the person taking the minutes, the authenticator of the minutes and the name of the vote counters;

- the most important events at the General Meeting and the proposals made;
- the draft resolutions, in the case of each resolution the number of shares with respect to which valid votes have been cast, the share represented by these votes in the share capital, the number of votes for and against the proposals and the number of those who abstained;
- objections to a resolution by any shareholder and any member of the Board of Directors or the Supervisory Board if the person objecting requests it himself.

The minutes are signed by the Chairman of the General Meeting and the person taking the minutes and are authenticated by an attending shareholder who has been selected for this purpose.

The Board of Directors must send the Company Court an authenticated copy of the minutes of the General Meeting within 30 days after the General Meeting is adjourned, together with the attendance register and the documents that certify that the General Meeting was properly convened.

Further details are contained in the Articles of Association published on our website.

During the General Meeting that was originally announced, in accordance with the provisions of Government Decree 102/2020 (IV.10.) on special provisions regarding partnerships and corporations during the state of emergency, for 17 April 2020, cancelled on 26 March 2020 and then reconvened on 30 April 2020, the resolutions regarding the published agenda items were passed by the Board of Directors of the Company acting under the authority of the General Meeting.

### *1.10. Declaration on Remuneration*

The purpose of this section is to provide the General Meeting of the Bank with information on Act LXVII of 2019 on the promotion of long-term shareholder participation and the amendment of certain laws for the purpose of legal harmonisation (hereinafter: “SRD II Act”). This law is the adaptation in Hungary of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (SRD II).
Pursuant to Section 16 (1) of the SRD II Act, the Bank had established a remuneration policy for directors in accordance with the provisions of the Act, which was approved by the Bank’s Board of Directors, acting under the authority of the Bank’s General Meeting convened for 30 April 2020, through its Resolution No.92/2/2020 passed by a vote of opinions (hereinafter: “Remuneration Policy”).
Pursuant to Section 16 (1) of the SRD II Act, the Bank applies the Remuneration Policy to directors. The personal scope of the Remuneration Policy extends, in accordance with this provision, to the members of the Bank’s Board of Directors, Supervisory Board and Audit Committee, as well as to the Chief Executive Officer and Deputy Chief Executive Officers of the Bank (hereinafter: “Directors”)
According to the provisions of SRD II Act (Section 16 (2)), the remuneration policy shall contribute to the company’s business strategy and long-term interests and sustainability, and shall explain how it does so. To facilitate all of the above, the Bank's Remuneration Policy and Practice includes the following:

- The managers' remuneration is based on value creation. It encourages high performance and appropriate risk-taking in line with the Bank's strategy, as well as a responsible behavior serving the long-term interests of the Bank (e.g. developing incentives, through the creation of a performance measurement scheme and the use of financial and non-financial indicators, that aligns the managers’ individual interests with the Bank’s long-term interests).

- The share-based honorarium and performance-based remuneration ensure consistency between the individual interests of the executives and the long-term interests of shareholders and the company, by guaranteeing the long-term commitment of the beneficiaries of share-based honorarium and performance-based remuneration and their commitment to the Bank's sustainable and long-lasting success.

- The objective is to ensure that the Bank's senior management consists of executives with the appropriate skills and competences and with a good business reputation, who contribute to the implementation of the Company's long-term success and strategy (including, in particular, the application of selection criteria aligned with these values and of a competitive wage system adjusted to market conditions, qualifications and the complexity of the tasks, in an effort to attract and retain the appropriate executive staff).

- Provisions intended to ensure several years' deferral of performance-based remuneration
  and its subsequent risk adjustment also promote long-term value creation and sustainability, as well as ethical behavior. These provisions examine eligibility for performance-based remuneration not only at the time that it is awarded, but also before each deferred instalment is paid (in every year of the deferral cycle), thereby ensuring that the performance measurement process is indeed based on long-term results and, where appropriate, any disbursed performance-based remuneration can be reclaimed.

Pursuant to Section 16 (3)-(4) of the SRD II Act, the remuneration policy must be clear and comprehensible, with the proviso that the company is not obliged to make public in the remuneration policy information the disclosure of which would seriously compromise its business interests or its rights to business secrecy. In our opinion, with an accurate, comprehensive and easy-to-understand description and clear wording of the rules, the Bank's Remuneration Policy complies with the aspects of clarity and comprehensibility.
Section 16 (5) of the SRD Act II stipulates that the company may pay the directors remuneration only on the basis of a remuneration policy submitted to the General Meeting for a vote of opinions, in accordance with the provisions of Section 3:268 (2) of the Civil Code.
The Bank ensures compliance with this provision by the Remuneration Policy having been approved by the Board of directors, acting under the authority of the Bank's General Meeting convened for 30 April 2020, through Resolution No. 92/2/2020. In view of the fact that, pursuant to Section 29 (3) of the SRD II Act, the Remuneration Policy was to be adopted in 2020 and was required to be applied for the first time to the year 2021, only payments made after 1 January 2021 were relevant in terms of compliance, after which date no payments were made in non-compliance with the provisions of the Remuneration Policy.
The Remuneration Policy contains all the content elements listed in Section 17 (1)-(3) of the SRD II Act, as follows:

- The specification of the various fixed and variable components of the remuneration, including all forms of remuneration and other benefits that may be provided to directors, indicating their relative proportions, is comprehensively set out in Sections II and III of the Remuneration Policy.

- The description of how the remuneration and employment conditions of the company's employees were taken into account during the elaboration of the remuneration policy is contained in Section VIII of the Remuneration Policy.

- The duration of the contracts concluded with the directors for employment or performance of office and the related remuneration, the applicable notice periods, the main characteristics of supplementary pension or early retirement schemes, as well

as the terms of the termination and payments linked to termination are contained in Section IV of the Remuneration Policy.

- The presentation of the decision-making process followed for the determination, review and implementation of the remuneration policy, including, measures to avoid or manage conflicts of interests, as well as the role of the remuneration committee or other committees concerned is contained in Section IX of the Remuneration Policy.

- In connection with share-based remuneration, the vesting periods, possibly the retention of shares after vesting, and an explanation of how share-based remuneration contributes to the company's business strategy, long-term interests and sustainability are set out in Chapter V of the Remuneration Policy.

- In respect of variable remuneration, the clear, comprehensive and varied criteria for the award of the variable remuneration and the applicable financial and non-financial performance criteria – including in particular criteria relating to corporate social responsibility – and an explanation of how they contribute to the Company's business strategy, long-term interests and sustainability, as well as the methods to be applied to determine to which extent the performance criteria have been fulfilled are contained in Section VI to the Remuneration Policy.

  In connection with these criteria, it needs to be emphasised that the objectives defined in the Remuneration Policy must be sufficiently long-term and comprehensive to ensure that they remain standard and relevant in a continuously changing business environment even over several-year cycles, and that their public accessibility does not prejudice the Bank's legitimate business interests (in line with Section 16 (4) of SRD II Act).

  The Bank uses a KPI library containing some 120 quantitative and qualitative objectives, and each of the objectives defined in this KPI library in respect of the Directors corresponds to a comprehensive criterion set out in Section VI of the Remuneration Policy. In each case, the specific objectives of a given Director are selected from the objectives contained in the KPI library, which, in the given business year, clearly define the business objectives relevant to the area of responsibility of the Director concerned. Nevertheless, the objectives set for the Directors always follow the two-tier objective structure set out in the Remuneration Policy (both institutional and individual objectives are to be defined). In accordance with the provisions set out in the Remuneration Policy, these objectives also include objectives related to corporate social responsibility.

- In connection with variable remuneration, information on any deferral periods and on the possibility for the company to reclaim variable remuneration is set out in Section VII of the Remuneration Policy..

Section 17 (4) of the SRD II Act stipulates that, in the event that the remuneration policy is revised, the revised policy must describe and explain all significant changes occurred since the most recent votes by the general meeting of shareholders, as well as a presentation of how it takes into account the votes and views of shareholders regarding the remuneration policy and the reports. As the Remuneration Policy was first adopted in 2020, the possibility of revising the policy could not arise. Accordingly, this section of the SRD II Act has hot been applied to date.

Pursuant to Section 17 (5) of the SRD II Act, departures from the remuneration policy are only accepted in exceptional cases, and temporarily. Since the application of the adopted Remuneration Policy started on 1 January 2021, there has been no departure from the prescribed rules, so compliance with the law can be established in this respect as well.

Section 18 of the SRD II Act stipulates that, after the vote on the remuneration policy at the general meeting, the remuneration policy together with the date and the results of the vote must be made public without delay on the website of the company, and that the remuneration policy must remain publicly available, free of charge, at least as long as it is applicable. The Bank complies with the above requirements, as the Remuneration Policy was published immediately after its approval – together with the decision adopting it – and it is still available free of charge (starting from page 60) at the following link:
https://www.otpbank.hu/static/portal/sw/file/200430_hatarozatok_082.pdf
Pursuant to Section 22 (2) of the SRD II Act, the provisions of the SRD II Act applicable to remuneration reporting shall apply to credit institutions and investment firms only if this is requested by Magyar Nemzeti Bank in its resolution. In the absence of such a decision, the Bank shall continue to fulfil its obligation to disclose information in compliance with Article 450 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"). The Bank fulfilled the above obligation to disclose information in 2020 as well. The published remuneration information is available at the following link (pages 64-72 of the document):
https://www.otpbank.hu/static/portal/sw/file/200430_Nyilvanossagra_hozando_informaciok_088.pdf

### *1.11. Evaluation of the work of the Board of Directors, the Supervisory Board and the management*

In accordance with the expectations of the supervisory authority, the execution capabilities of the Board of Directors, the Supervisory Board and the management were evaluated with respect to the affected managers, in the framework of the 2020 annual performance evaluation. The evaluation was performed along the following dimensions: business thinking, business and operational development, governance, relationship and resource management, integrity and personal drive. Based on the results of the evaluation, no issue has arisen that would necessitate action.
Within the group of managers concerned, during the evaluated period – based on the conflicts of interest policy, code of ethics, or human risk criteria – no conflict of interest or issue relating to the independence of the managers has arisen.

### *1.12. Description of the diversity policy applied with respect to the undertaking's administrative, management and supervisory bodies*

The Bank defines and regulates the requirements relating to executive officers in compliance with the requirements and guidelines under European Union and domestic law that fundamentally determine the operation of credit institutions.
When nominating the members of its management bodies (Board of Directors, Supervisory Board) the Bank, and when appointing the members of the Management, the Board of Directors, gives priority to the possession of professional expertise, advanced interpersonal and management skills, varied academic qualifications, wide-ranging business experience and good standing, but they are also strongly committed to taking effective steps to ensure diversity in connection with the Company's operation, including efforts to steadily improve the rate of participation by women. Without prejudice to the above principles, the Bank also strives to ensure that both genders are represented among the candidates during the selection process for members of management bodies.
The Bank's Nomination Committee constantly monitors the applicable European Union and domestic regulations, with the purpose of taking the necessary steps without delay should clearly expressed expectations be announced.
It should be borne in mind, however, that as a public limited company the election of members of the management bodies is the exclusive prerogative of the General Meeting,

over which the Bank has no substantive influence beyond fully complying with the above criteria.
Pursuant to the Bank's Articles of Association, a Board of Directors with 5-11 members and a Supervisory Board with 5-9 members operate at the Bank. The present Board of Directors has 10 members, none of whom are female, while the Supervisory Board has 6 members, including one female member since 15 April 2016 (the mandate of the current female member began on 12 April 2019). The Bank's senior management currently consists of 6 persons, none of whom are women.

### *1.13. Legal background*

The Bank Group complies with the prevailing corporate law and prudential legal provisions during its operation. OTP Bank Plc., which acts as the controlling credit institution, controls the members of the Bank Group with consideration to Hungarian law and the local law pertaining to each foreign subsidiary.
Pursuant to Section 3:112 (3) of the Civil Code, the Bank may give instructions to the executive officers of single-person companies owned 100% by the OTP, which the executive officer is obliged to comply with.

### *1.14. Group structure*

The Bank Group includes OTP Bank, its Subsidiaries and all Companies operating in Hungary or abroad in which OTP Bank or its Subsidiaries have, directly or indirectly, Controlling Interest or Minority Interest.

### *1.15. Governance structure*

**Features of the governance model**

The operation of the OTP Bank Group is implemented in a matrix model that best suits the specifics of the group, through ownership and professional/functional governance.
The applied model is used to ensure that the multinational organization consisting of banking group members of different sizes, operating in different market environments and being at different levels of development are managed according to uniform principles but taking into account local characteristics, optimizing business efficiency at the group level.

**Types of governance**

*Ownership governance* means the direct enforcement of interests, the exercise of the rights of ownership of the parent company as enshrined in law. The parent bank enforces its interests as owner at the general meeting and through the executive bodies and chairpersons of the subsidiary.

*Professional and functional governance* is the set of activities through which the parent bank's professional support/operation/service functions transfer knowledge and experience or provide services to the respective functions of the subsidiaries or directly control their operation. A key element and content of the system is the sharing of best practices at the group level, the promotion of operation at the expected professional level, and the provision of professional support to group members.

### *1.16. Operating structure*

**Managers of the Bank's operation based on organizational hierarchy**

The Chairman & CEO controls and supervises the Bank's daily operation in order to ensure that it takes place within the framework of the law and the Bank's Articles of Association and in accordance with the decisions of the General Meeting and the Board of Directors.

Under the direction of the Chairman & CEO, each of the central professional areas and functions, with due regard to their logical and professional connections, are led by Deputy CEOs (Heads of Divisions). The current manager in charge of the Bank's Group Governance and Operations Division is responsible for providing the framework for group governance, with the proviso that each head of division, head of business area and functional area manager is also responsible for group-level business and functional governance.

### *1.17. Reporting lines*

The reporting pathways of the Bank are well regulated and documented both within the Bank Group and concerning outsourced activities.
The Group Operational Risk Management Committee is responsible for the appropriate operation of the reporting pathways required by law and expected by the management.

## 2.) CG Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance (CG) Report, the Company states, by completing the following tables, the extent to which it has implemented the recommendations and guidances specified in the specific sections of the Corporate Governance Recommendations (hereinafter: CGR) of the Budapest Stock Exchange in its own corporate governance practice.
By looking at the tables, market participants are able to gain a quick insight into the extent to which the corporate governance practices of particular companies comply with certain requirements specified in the CGR, and to quickly compare the practices of various companies.

**Level of compliance with the Recommendations**

The company specifies whether it has applied the relevant recommendation or not, and if not, it describes briefly the reasons why a particular recommendation has not been implemented.

**1.1.1. The Company has an organisational unit that deals with investor relations or a designated person that performs these tasks.**
Yes

**1.1.2. The Company's Articles of Association are accessible on the Company's website.**
Yes

**1.1.4. If the Company's Articles of Association allow shareholders to exercise their rights in their absence, the Company has published the methods and conditions for doing so, including all necessary documents.**
Yes

**1.2.1. The Company has published on its website a summary document with the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders.**
Yes

**1.2.2. The Company has published the precise date when the circle of those eligible to participate in a given company event is determined (effective date), and has also published the last date when the shares granting eligibility for participating in the given company event are traded.**
Yes

**1.2.3. The Company held its General Meetings by ensuring that as many shareholders can attend as possible.**
Yes

**1.2.6. The Company has not restricted the rights of shareholders to designate a different representative for each of their securities accounts at any General Meeting.**
Yes

**1.2.7. For proposals for the agenda items, in addition to the Board of Directors' draft resolution, the Supervisory Board's opinion was also disclosed to shareholders.**
Yes

**1.3.3. The Company has not restricted the rights of shareholders attending a General Meeting to request information, add comments and submit proposals, and has not set any preconditions for these, unless measures were taken in the interest of conducting the General Meeting in accordance with the rules and with its intended purpose.**
Yes

**1.3.4. By answering the questions raised at the General Meeting, the Company has ensured compliance with the information provision and disclosure principles set out in the legal and stock-exchange requirements.**
Yes

**1.3.5. The Company published on its website, within three working days after the General Meeting, its answers to questions that the representatives of the Company's boards or any auditor present were unable to satisfactorily answer at the time, or information as to why it refrained from offering answers.**
Yes

**1.3.7. The Chairman of the General Meeting ordered a recess or suggested that the General Meeting be postponed when a motion or proposal relating to a particular issue on the agenda was submitted which the shareholders did not have a chance to become familiar with before the General Meeting.**
Yes

**1.3.8.1. The chairperson of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling senior officers and Supervisory Board members.**
Yes

**1.3.8.2. For senior officers or Supervisory Board members, whose nominations were supported by shareholders, the Company disclosed the identity of the supporting shareholder(s).**
Yes

**1.3.9. Prior to discussing agenda items concerning the amendment of the Articles of Association, the General Meeting passed a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific manner.**
Yes

**1.3.10. The Company published the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting.**
Yes

**1.6.1.1. The Company's disclosure guidelines include electronic and internet disclosure procedures.**
Yes

**1.6.1.2. The Company's website has been created with due regard to the disclosure guidelines, and with a view to providing appropriate information to investors.**
Yes

**1.6.2.1. The Company has internal regulations in place with respect to disclosure (publication), which covers the treatment of the information listed in Section 1.6.2 of the Recommendations.**
Yes

**1.6.2.2. The internal regulations of the Company cover the classification of events that are material in terms of disclosure.**
Yes

**1.6.2.3. The Board of Directors has assessed the effectiveness of disclosure processes.**
Yes

**1.6.2.4. The Company has published the findings of its assessment of the disclosure processes.**
Yes

**1.6.3. The Company has published its annual corporate event calendar.**
Yes

**1.6.4. The Company has published its strategy, its business ethics policy and its guidelines related to other stakeholders.**
Yes

**1.6.5. The Company has published information on the careers of Board of Directors /Governing Board, Supervisory Board and management members in its annual report or on the company website.**
Yes

**1.6.6. The Company has published all relevant information about the work of the Board of Directors/Governing Board, the Supervisory Board and the management, the assessment of such work and any changes thereto in the current year.**
Yes

**1.6.8. The Company has published its risk management guidelines and information about its system of internal controls, the main risks and the principles applied in their management.**
Yes

**1.6.9.1. The Company has published its guidelines relating to the trading of its shares by insiders (insider dealing).**
Yes

**1.6.9.2. The Company has disclosed the share of the Board of Directors/Governing Board, Supervisory Board and management members in the securities issued by the Company in the annual report or in some other manner.**
Yes

**1.6.10. The Company has disclosed the relationship of Board of Directors/Governing Board, Supervisory Board and management members with third parties which could affect the operation of the Company.**
Yes

**2.1.1. The Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors/Governing Board.**
Yes

**2.2.1. The Board of Directors/Governing Board has rules of procedure in place defining the tasks related to the preparation and conduct of meetings, and to the adopted resolutions, as well as other issues related to the operation of the Board of Directors/Governing Board.**
Yes

**2.2.2. The Company has published the procedure for nominating Board of Directors/Governing Board members.**
Yes

**2.3.1. In its rules of procedure and its work plan, the Supervisory Board provides a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it.**
Yes

**2.4.1.1. The Board of Directors/Governing Board and the Supervisory Board held meetings periodically at predefined intervals.**
Yes

**2.4.1.2. The rules of procedure of the Board of Directors/Governing Board and the Supervisory Board provides rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic means of communication.**
Yes

**2.4.2.1. The board members had access to the proposals of the given meeting at least five working days before the given meeting.**
Yes

**2.4.2.2. The Company ensured the appropriate conduct of the meetings, the drawing up of minutes on the meetings, and the management of the documentation and the resolutions of the Board of Directors/Governing Board and the Supervisory Board.**
Yes

**2.4.3. The rules of procedure stipulate the regular and occasional participation in the board meetings of non-board members.**
Yes

**2.5.1. The members of the Board of Directors/Governing Board and the Supervisory Board were nominated and elected through a transparent process, and the information on the candidates was made public in due time before the General Meeting.**
Yes

**2.5.2. The composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations.**
Yes

**2.5.3. The Company ensured that the newly elected board members became familiar with the structure and operation of the Company and their tasks to be performed as members of the respective boards.**
Yes

**2.6.1. The Governing Board/Supervisory Board requested (in the context of preparing the annual corporate governance report) those of its members that are considered independent to confirm their independence at regular intervals.**
Yes

**2.6.2. The Company provided information about the tools which ensure that the Board of Directors/Governing Board assesses the management's activities objectively.**
Yes

**2.6.3. The Company has published on its website its guidelines concerning the independence of the Board of Directors / Supervisory Board and the applied criteria of independence.**
Yes

**2.6.4. The Supervisory Board of the Company has no members who have held any position in the Board of Directors or in the management of the Company in the preceding five years, not including cases when they were involved to ensure employee participation.**
Yes

**2.7.1. The members of the Board of Directors/Governing Board informed the Board of Directors/Governing Board (the Supervisory Board/Audit Committee) if they (or individuals they have business relations with, or their relatives) have an interest in any business transactions of the Company (or any subsidiaries thereof) that prejudices their independence.**
Yes

**2.7.2. Transactions and assignments between members of boards/members of the management (or individuals closely associated with them) and the Company (or its subsidiaries) were carried out and approved in accordance with the Company's general business practices, but applying more stringent transparency rules as compared with such general business practices.**
Yes

**2.7.3. Board members informed the Supervisory Board/Audit Committee (Nominating Committee) if they received a request to sit on a board or take up a management position at a company not belonging to the Company Group.**
Yes

**2.7.4. The Board of Directors created guidelines pertaining to the flow of information within the Company as well as the management of insider information and supervises compliance therewith.**
Yes

**2.8.1. The Company has established an independent internal audit function that reports directly to the Audit Committee/Supervisory Board.**
Yes

**2.8.2. Internal Audit has unrestricted access to all information necessary for carrying out audits.**
Yes

**2.8.3. Shareholders have received information about the operation of the system of internal controls.**
Yes

**2.8.4. The Company has a function ensuring compliance (compliance department).**
Yes

**2.8.5.1. The Board of Directors or the committee operated by it is responsible for the supervision and direction of the Company's entire risk management operations.**
Yes

**2.8.5.2. The relevant organisation of the Company and the General Meeting received information about the effectiveness of the risk management procedures.**
Yes

**2.8.6. With the involvement of the relevant areas, the Board of Directors/Governing Board developed the basic principles of risk management, taking into account the unique features of the industry and the Company.**
Yes

**2.8.7. The Board of Directors/Governing Board defined the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives.**
Yes

**2.8.8. The functions of the internal control system reported on the operation of the internal control mechanisms and the corporate governance functions to the competent board at least once a year.**
Yes

**2.9.2. The Board of Directors/Governing Board invited the Company's auditor in an advisory capacity to meetings involving discussion of the financial reports.**
Yes

**Level of compliance with the guidances**

The Company must specify whether it applies the relevant proposal of the CGR or not. (Yes/No) The Company also has the opportunity to justify any deviation from such proposals.

**1.1.3. The Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights in their absence.**
Yes

**1.2.4. The Company determined the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account.**
Yes

**1.2.5. The voting procedure used by the Company ensures a clear, unambiguous and rapid determination of voting results, and in the case of electronic voting, the validity and reliability of such results.**
Yes

**1.3.1.1. The Board of Directors and the Supervisory Board were represented at the General Meeting.**
Yes

**1.3.1.2. In the event of the absence of the Board of Directors/Governing Board and the Supervisory Board, information thereon was disclosed by the Chairman of the General Meeting before discussion of the agenda items.**
Yes

**1.3.2.1. The Articles of Association of the Company do not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments, if that person's presence and expert opinion is thought to be necessary, and they also help in the provision of information to shareholders and for the General Meeting to make decisions.**
Yes

**1.3.2.2. The Articles of Association of the Company does not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments.**
Yes

**1.3.6. The annual report of the Company, prepared pursuant to the Accounting Act, contains a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's operations for the year.**
Yes

**1.4.1. In line with Section 1.4.1, the Company paid dividends within 10 working days to its shareholders who had submitted all the necessary information and documents.**
Yes

**1.6.11. The Company has published its information notices in English as well, in line with the provisions of Section 1.6.11.**
Yes

**1.6.12. The Company informed its investors about its operations, financial situation and assets on a regular basis, but at least on a quarterly basis.**
Yes

**2.9.1. The Company has internal procedures in place regarding the use of external advisors and of their outsourced services.**
Yes

***RESOLUTION PROPOSAL NO. ….../2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, approves OTP Bank Plc.'s 2020 Report on Corporate Governance.*

# EVALUATION OF THE ACTIVITY OF EXECUTIVE OFFICERS PERFORMED IN THE PAST BUSINESS YEAR; DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY

Based on Act V of 2013 on the Civil Code, OTP Bank Plc.'s supreme governance body each year puts on the agenda the evaluation of the members of the Board of Directors in terms of their activity performed in the previous financial year, and passes a resolution on whether to grant them discharge from liability.

The **Board of Directors** of OTP Bank Plc. is the body, consisting of senior officers that conducts the management of the Bank.

The Supervisory Board of OTP Bank Plc., as part of this proposal, has prepared for the Board of Directors acting in the competency of the Annual General Meeting the evaluation of the activity performed by the members of the Board of Directors in the previous financial year, and then makes a recommendation on granting them discharge from liability.

In the course of 2020, the Supervisory Board, in fulfilment of its duties stipulated by law and by OTP Bank Plc's Articles of Association, monitored the activity of the executive management, and continuously received a briefing on the Bank Group's latest financial position and business activity.

The Supervisory Board, on the basis of the documents placed at its disposal, the proposals presented to it, as well as the information published on OTP Bank's website, hereby finds as follows:

- In the past year, the Board of Directors of OTP Bank Plc. met regularly, brought decisions, passed resolutions and followed up on their implementation on the basis of its work schedule based on its mandatory duties prescribed by law, the provisions of the Articles of Association, the Bank's business policy plan and its own rules of procedure.
- The Board of Directors of OTP Bank Plc. has prepared and drawn up for adoption by the General Meeting the parent-bank and consolidated financial statements for 2019, prepared in accordance with International Financial Reporting Standards.
- In compliance with its statutory obligation set out in Section 3:289 of the Civil Code, the Board of Directors prepared for the General Meeting its Corporate Governance Report for 2019, which had been reviewed and approved by the Supervisory Board.
- The Board of Directors prepared – following a preliminary review by the Supervisory Board – its proposal regarding the amendment of the Bank's Articles of Association, for acceptance by the General Meeting.
- In accordance with the expectations set out in Section 3:272 of the Civil Code, the Board of Directors has arranged for publication of the Bank's financial statements for the year 2019, and of the material data from the reports of the Board of Directors and Supervisory Board.
- Based on the Act on Credit Institutions and Financial Enterprises and on the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms the Board of Directors has fulfilled its disclosure obligation regarding the publication of information intended for public disclosure, as part of which it provided information in relation to its corporate governance system and remuneration policy as well.
- In order to ensure compliance with Section 1.6.2 of the BSE's Recommendations on Responsible Corporate Governance, the Board of Directors of OTP Bank Plc. evaluated the effectiveness of its public disclosure processes on an annual basis in 2020 as well.

During the review of the efficiency of the public disclosure processes due in 2020, the Board of Directors of OTP Bank Plc. found the processes to be efficient. In addition to observing the statutory provisions relevant to the Company and the provisions of the Budapest Stock Exchange, the Board of Directors ensured that the procedures related to the disclosure of corporate information are – as far as possible – in compliance with the Corporate Governance Recommendations.

- In the past business year, in compliance with its tasks stipulated by the relevant legislation and in OTP Bank Plc's Articles of Association, the Board of Directors of OTP Bank Plc., among other things

*Monitored*

- the statements contained in the reports of the management,
- the development of the Bank's results,
- compliance with the provisions of the Credit Institutions Act,
- the quarter-to-quarter development of the quality of the Bank Group's portfolio,
- commitments exceeding the individual transaction value of three billion forints,
- the status of Stage 3 rated transactions above 1 billion,
- the latest issues related to the operation and activity of the Bank and the Bank Group.

*Made a decision*

- the capital positions of the individual subsidiaries and companies within its scope of interest, and
- on the purchase and sale of shareholdings, as well as
- in relation to the reviewing of limits, and
- on the setting and modification of customer limits and counterparty limits,
- on the use of internal loans,
- on the findings of the review and the approval of regulations that fundamentally define the Bank's operation, and those referred to its authority under the Credit Institutions Act and its own rules of procedure.
- on the granting of authorisations to sign on behalf of the Company and
- on the items on the agenda of the postponed General Meeting announced for 30 April 2020 in view of the current epidemiological situation and the government measures taken in connection therewith.

The Supervisory Board of OTP Bank Plc. judges that in 2020 the Bank's Board of Directors fulfilled its duties prescribed in the relevant statutory provisions and in the Articles of Association of OTP Bank Plc., as per the details presented in the foregoing, based on the above summary. In the course of its operation, it conducted its activities with a view to preserving shareholder value and in accordance with the Company's best interests.

The Supervisory Board proposes for granting of discharge of liability for the members of the Board of Directors by the Board of Directors acting in the competency of the Annual General Meeting based upon the evaluation of their activities performed in the past financial year. The decision-making is proposed to make separately for each member of the Board of Directors in order to ensure that conflicts of interest are avoided, so that the concerned person does not take part in the decision in respect of which he or she is considered to be concerned. This follows from Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings from Section 144 (2) and of the Act V of 2013 on the Civil Code 3:19. § (2).

***RESOLUTION PROPOSAL NO. …/1/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. Sándor Csányi gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL NO. …/2/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Mr. Tamás György Erdei gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL NO. …/3/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Mr. Antal György Kovács gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL NO. …/4/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Mr. László Wolf gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL …/5/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Mr. Mihály Baumstark gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL NO. …/6/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. Tibor Bíró gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL No. …/7/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. István Gresa gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL No. …/8/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. Antal Pongrácz gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL No. …/9/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. László Utassy gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

***RESOLUTION PROPOSAL No. …/10/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, has evaluated the activities of the executive officers in the 2020 business year and certifies that Dr. József Zoltán Vörös gave priority to the interests of the Company when performing his activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of him in the business year 2020.*

# ELECTION OF THE COMPANY'S AUDIT FIRM, THE DETERMINATION OF THE AUDIT REMUNERATION, AND DETERMINATION OF THE SUBSTANTIVE CONTENT OF THE CONTRACT TO BE CONCLUDED WITH THE AUDITOR

In accordance with the decision of the Board of Directors acting in the competency of the Annual General Meeting, Deloitte Auditing and Consulting Ltd. audited OTP Bank Plc. for the year 2020. They audited not only the separate financial statements and the consolidated financial statements in accordance with International Financial Reporting Standards for the year ended 2020, but also successfully helped the preparations of separate and consolidated quarterly non-audited financial statements and performed the audit of the interim financial statement and the annual financial statements.

Based on the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC the audit of OTP Bank Plc.'s separate and consolidated annual financial statements prepared in accordance with International Financial Reporting Standards for the year 2021.

Pursuant to Article 16 (3) of the Regulation, the Audit Committee established a Nomination Committee, which conducted an investigation pursuant to Article 16 (a) - (f) of the Regulation and made a proposal to the Audit Committee in which two of the bidding audit companies' offer had been presented and suggested one of the audit companies.

The Audit Committee issued a recommendation pursuant to Article 16 (2) of the Regulation on the selection of the auditor, which is justified in accordance with Article 16 (2) of the Regulation. In its recommendation, the Audit Committee presented the offer of PriceWaterhouseCoopers Könyvvizsgáló Kft., in addition to the proposed Ernst & Young Könyvvizsgáló Kft. The Audit Committee classified the offer of Ernst & Young Könyvvizsgáló Kft. as a clearly more favorable offer on the basis of the specified scoring and submitted a proposal supporting the selection of the company as an auditor.

In view of the fact that the above procedure was carried out, OTP Bank Plc. held preliminary consultations with Ernst & Young Könyvvizsgáló Kft. in order for or Ernst & Young könyvvizsgáló Kft. to comply properly.

According to section 152. paragraph (3) (b) of 2013. CCXXXVII Act on Credit Institutions and Financial Enterprises, in the name of the Supervisory Board I suggest the following:

1. Audit Firm: Ernst & Young Ltd. (001165)
   Budapest, Váci út 20.)
   H-1132
   Independent Auditor: Zsuzsanna Nagyváradiné Szépfalvi
   (Registration number: 005313)
   In case of insuperable hindrance: Zoltán Farkas
   (Registration number: 007330)

2. The total fee of auditing for the audit of the separate and consolidated annual financial statements for the year 2020, prepared in accordance with International Financial Reporting Standards.

**HUF 276,102,000 + VAT**

From this:

| | |
|---|---|
| Audit fee of the separate annual accounts: | HUF 162,413,000 + VAT |
| Audit fee of the consolidated annual accounts: | HUF 113,689,000 + VAT |

***RESOLUTION PROPOSAL No. …./2021 OF THE BOARD OF DIRECTORS***

*Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2021, the Board of Directors acting in the competency of the Annual General Meeting is electing Ernst & Young Ltd. (001165, H-1132 Budapest, Váci út 20.) as the Bank's auditor from 1 May 2021 until 30 April 2022.*

*The Board of Directors acting in the competency of the Annual General Meeting approves the nomination of Zsuzsanna Nagyváradiné Szépfalvi (No. 005313 chartered auditor) as the person responsible for auditing. In case any circumstance should arise which ultimately precludes the activities of Zsuzsanna Nagyváradiné Szépfalvi as appointed auditor in this capacity, the Board of Directors acting in the competency of the Annual General Meeting proposes the appointment of Zoltán Farkas (No. 007330 chartered auditor) to be the individual in charge of auditing.*

*The Board of Directors acting in the competency of the Annual General Meeting establishes the total amount of HUF 276,102,000 + VAT as the Auditor's remuneration for the audit of the separate and consolidated annual financial statements for the year 2021, prepared in accordance with International Financial Reporting Standards. Out of total remuneration, HUF 162,413,000 + VAT shall be paid in consideration of the audit of the separate annual accounts and HUF 113,689,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.*

# PROPOSAL ON THE ADDITION OF NEW ARTICLE 11 SECTION 13 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION

# Proposal on the addition of new Article 11 Section 13 of the OTP Bank Plc.'s Articles of Association

The text of the Articles of Association is in Times New Roman, the added parts are highlighted with double underlining, the ~~deleted sections~~ are highlighted with crossline.

**[11.§ The Supervisory Board]**

11.13. a) The Supervisory Board may pass valid resolutions without holding a meeting if the board members send their vote – given in respect of the draft resolution sent to them – in writing, in an original copy, to the registered office of the Company within 15 days.

b) For the voting conducted by the Supervisory Board in the manner defined in point a.) to be valid, the votes of more than two-third of the members but at least 3 members of the Supervisory Board must be cast in a valid manner.

c) The detailed rules on written voting are defined in the Rules of Procedure of the Supervisory Board.

d) Instead of personally attending the meetings, members of the Supervisory Board may also exercise their members' rights at board meetings by using an electronic communication device suitable for identifying the member and assuring mutual and unrestricted communication between the members.

## Reasoning:

Basis for amending the Articles of Association in view of the pandemic situation, the emergency legislation in force allows OTP Bank Plc.'s governing bodies, including the Supervisory Board, to make decisions flexibly without holding a meeting. In order for this practice to continue even after the end of the emergency, it is justified that the conditions of the written voting of the Supervisory Board be indicated in the Articles of Association in accordance with the provisions of the Credit Institutions Act. The addition also covers the conditions for holding an electronic (conference) meeting in order to ensure flexible operation.

***RESOLUTION PROPOSAL NO. ….../2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting accepts the addition of new Article 11 Section 13 of the Articles of Association in accordance with the proposal of the Board of Directors, as per the annex of the resolution.*

# PROPOSAL ON THE GROUP-LEVEL REMUNERATION GUIDELINES OF OTP BANK PLC.

# GROUP REMUNERATION GUIDELINES OF OTP BANK PLC.

The Banking Group's Remuneration Policy is an integral part of the corporate governance system, which shall be enforced throughout the entire Banking Group. The Banking Group's Remuneration Policy, in keeping with the relevant European Union directive, is consistent with efficient and effective risk management, and in accordance with its purpose, it does not encourage the assumption of risks that exceed the risk-assumption limits of the Bank and the Banking Group-member subsidiaries, furthermore it is consistent with the business strategy, objectives, values (including environmental and social responsibility as well as the requirements of good governance) and long-term interests of the Bank and the Banking Group-member subsidiaries, and it promotes the achievement thereof.

## 1. The objective of the Remuneration Policy

The objective of the Banking Group's Remuneration Policy is, within the Banking Group's risk-tolerance capacity, to acknowledge the contribution of those managers and employees of OTP Bank Plc. and the Banking Group Subsidiaries in achieving bank and group-level results who, through their professional activity, have a material impact on the risk profile of the individual institutions operating in the Banking Group, and to provide an incentive for their performance. The Banking Group's Remuneration Policy is gender-neutral; it is based on the principle of equal pay for men and women for equal work or work of equal value.

## 2. Institutional and personal scope of the Remuneration Policy

The institutional scope of the Banking Group's Remuneration Policy covers OTP Bank Plc., as well as all its subsidiaries that are rendered subject to consolidated supervision by the National Bank of Hungary, with the proviso that the fund management companies (UCITS, AIFMs), are not, as a general rule, subject to institutional scope, unless the Bank's Supervisory Board extends the institutional scope to them.

Within this institutional scope, the personal scope of the Banking Group's Remuneration Policy is determined, in accordance with the applicable EU regulations, on the basis of qualitative criteria drawn from the risk profile of the institutions operating within the Banking Group, as well as quantitative criteria determined by income level. To ensure fulfilment of the qualitative criteria, the Bank applies a comprehensive risk-analysis procedure, in keeping with the group's business and risk strategy, based on which it performs an assessment three times a year for the purpose of identifying employees that have a material impact on the risk profile. The Bank takes the qualitative and quantitative criteria into account in accordance with the prevailing statutory requirements.

Those senior officers and employees fall **under the scope of the Banking Group's Remuneration Policy** who, based on qualitative and quantitative criteria defined in Commission Delegated Regulation (EU) No 604/2014 and in accordance with the provisions of the Banking Group's Remuneration Policy, have a material impact on the Banking Group's operation and risk profile at consolidated level, or on the operation and risk profile of the individual institutions of the Banking Group at sub-consolidated or local level.

The Bank's Supervisory Board decides on the persons that fall under the scope of the Banking Group's Remuneration Policy based on the following criteria:

- In the case of those employees who are identified purely by quantitative criteria or, without excluding the possibility of this, qualitative criteria, the Bank's Supervisory Board is entitled to consider whether they have a material impact on the risk profile through their professional activity, and in the absence of such impact, it may decide to exclude the persons concerned from the scope of the remuneration policy – depending on the relevant statutory provisions – with prior notification to the National Bank of Hungary, or in possession of a permission to do so.
- Those subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the internal capital composition of the Banking Group or of a sub-consolidated group of an institution shall not qualify as material business units. Senior officers and employees of subsidiaries not classed as material business units are not, as a general rule – and in the absence of fulfilment of other identification criteria – regarded by the Bank as having a material impact on the risk profile of an institution.
- Persons who have not been identified by the criteria defined in Commission Delegated Regulation (EU) No 604/2014, but who through their activity may have a material impact on the Bank's operation and/or risk profile, may be brought by the Bank's Supervisory Board under the personal scope of the remuneration policy.

## 3. The framework for applying the Banking Group's Remuneration Policy to the subsidiaries

All basic decisions relating to the remuneration policy shall be made by OTP Bank Plc., while the subsidiaries shall be responsible for complying with the local statutory provisions and obligations.

- As a general rule, **the Banking Group's Remuneration Policy** covers staff identified at the parent bank, as well as identified staff at subsidiaries that do not belong under the scope of the local remuneration policy.
- **The local remuneration policies prepared by the foreign institutions operating within the Banking Group** – that transpose the provisions of the Banking Group's Remuneration Policy to the local statutory environment of the individual countries – cover, as a general rule, the staff employed in the sub-consolidated group of the foreign institution who have a material impact on the risk profile of a banking-group institution.
- **Subsidiaries classifying as fund management companies operating in the European Union are entitled to adopt remuneration policies in accordance with the provisions of the Banking Group's Remuneration Policy,** in addition to the remuneration policy established on the basis of the supervisory regulations governing them, if the institutional scope of the Banking Group's Remuneration Policy is extended to them by the Bank's Supervisory Board.

## 4. The ratio of basic remuneration and performance-based remuneration

The **members of the Board of Directors** and the **Supervisory Board** receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For other persons falling under the effect of the remuneration policy, the remuneration consists of basic remuneration and performance-based remuneration. As a general rule, the elements of the basic remuneration are the basic salary and the benefits payable to all employees in the same position, on

equal terms. The basic remuneration may not be subject to the performance of those entitled to it, or to the discretionary decision of the employer.

The ratio of basic remuneration to performance-based remuneration is determined by the OTP Bank Plc.'s Supervisory Board, on the basis of the function, size and complexity of the organisation managed. In respect of the staff identified at sub-consolidated and local level, the Supervisory Board may assign this power – within the framework defined in these Guidelines – to the head of the Bank's Human Resources Management Directorate. The ratio of performance-based remuneration shall not exceed 100% of the basic remuneration for any person concerned. The maximum ratio of performance-based remuneration achievable in the case of a general bonus pool or in the case of a joint application of a general and an exceptional bonus pool is determined for each individual separately, taking into account the above limit.

In determining the general bonus pool, the ratio of performance-based remuneration to total remuneration, depending on the function performed and the organisational position occupied by the senior officer or employee concerned, in the case of subsidiaries classed as institutions operating within the Banking Group, may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc. may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

| | | Levels | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | from Level 4 | |
| | | min. | max. | min. | max. | min. | max. | min. | max. |
| Type of position | Business | 30% | 40% | 20% | 40% | 11% | 40% | 0% | 25% |
| | Support | - | - | 20% | 40% | 0% | 34% | 0% | 25% |
| | Control | - | - | 20% | 40% | 0% | 34% | 0% | 25% |

The ratios of performance-based remuneration determined in respect of the general bonus poolin the case of subsidiaries not classed as institutions operating within the Banking Group, depending on the function performed and the organisational position occupied by the senior officer or employee concerned, may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

| Levels | | | | | |
|---|---|---|---|---|---|
| Level 1 | | Level 2 | | from Level 3 | |
| min. | max. | min. | max. | min. | max. |
| 14% | 40% | 7% | 40% | 0% | 30% |

Where an extraordinary bonus pool is determined, the performance-based remuneration that may be granted to the senior officer or employee concerned from the extraordinary bonus pool may, as a general rule, not exceed 50% of the individual's performance-based remuneration determined based on the general bonus pool.

In the event of exceptional individual performance, a senior officer or employee may be granted payment from the general bonus pool as well, in an extent exceeding the performance-based remuneration ratio determined with respect to the general bonus pool but not exceeding the performance-based remuneration ratio determined for the joint application of the general and the extraordinary bonus pools, provided that such payment is covered by the general bonus pool.

## 5. The method of performance assessment linked to performance-based remuneration

In the case of **managers employed by OTP Bank Plc.**, performance is assessed on the basis of criteria that measure performance at the banking-group and at the individual level (financial indicators and indicators measuring the quality of work).

In the case of the **managers of the Banking Group's subsidiaries**, performance is assessed on a differential basis, in view of the nature of the companies' respective activities.

Banking Group-level performance is, based on the decision of the Supervisory Board, assessed by applying the group-level RORAC+ indicator (risk-adjusted ROE/COE) or the group-level RORAC indicator or the group-level Economic Value Added (EVA) indicator.[109]

The group-level RORAC+ indicator measures the return on equity in proportion to the cost of equity, the group-level RORAC indicator measures the return on risk-adjusted capital, whereas the EVA indicator measures the nominal value generation capacity of the banking group, as the difference between the profit produced by the group and the expected yield on the regulatory capital required for this purpose.

The target value of the banking group-level indicator chosen for evaluating performance is determined by the Bank's Supervisory Board based on the approved financial plan for the given year. The Supervisory Board may modify the target value in response to statutory changes implemented after the determination thereof and/or changes in market circumstances that have a significant objective effect on the Banking Group's profit and/or the achievement of the target values set.

With regard to the financial indicators used for performance assessment, the Supervisory Board may set a performance threshold below which the employee is not entitled to performance-based remuneration, furthermore, it may also specify a tolerance threshold above which not only the measured performance, but subjective considerations may also be taken into account in assessing the actual performance. If the value of the group level or institutional level financial indicators reach the tolerance threshold, only the Supervisory Board is entitled to recognise any performance deviating from the measured performance, provided that the performance is adversely affected by objective circumstances.

In order to integrate sustainability risks into performance measurement, the Bank sets objectives related to compliance-conscious behavior and social responsibility as an indicator of the quality of work, at least for bank managers and chief executives of subsidiaries who have a significant impact on the Bank's risk profile at the consolidated level.

## 6. Determining entitlement to performance-based remuneration

The decision regarding the maximum amount (general bonus pool) that may be spent on performance-based remuneration for the assessed year, taking the Banking Group's performance into account, is made by the Supervisory Board within 45 days following the annual General Meeting closing the year in question. The Supervisory Board may decide to establish an extraordinary bonus pool in case of an extraordinary business performance in the previous business year. The extraordinary bonus pool may be determined independently for each company operating in the Banking Group, provided that the extraordinary business performance of the company concerned is proven. Payments from the Extraordinary Bonus Pool may only be made - even if the additional conditions are met - if the quotient of the overall payment to be made at group level from the General and Extraordinary Bonus Pools and OTP Bank Plc.'s Common Equity Tier 1 capital do not exceed 2%.

[109]This index is calculated on the basis of the figures of Hungarian and foreign group members that were subject to consolidation throughout the entire economic year assessed.

In respect of the general bonus pool, eligibility for performance-based remuneration, and the amount of the award are determined, proportionately with fulfilment of the annual institutional and individual targets,

- by the Board of Directors on the basis of a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.,
- by the manager exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making,
- in the case of the chief executives of the Banking Group subsidiaries and the employees thereof identified at consolidated level, the body exercising owner's rights
- in the case of the managers of Banking Group subsidiaries identified at sub-consolidated and local level – not including the chief executive –in knowledge of the position on the matter of the manager exercising employer's rights, the chief executive

with due consideration to any restrictive decision by the Supervisory Board.

If the Supervisory Board has made a decision on the determination of an extraordinary bonus pool, then the Board of Directors shall decide on the eligibility and the amount of the actual disbursement of this bonus, based on a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.

In the case of the senior officers employed by the Bank and the chief executives of the Banking Group's subsidiaries, proposals for eligibility and the amount of the actual disbursement from the exceptional bonus limit, while in the case of other employees of the Banking Group's subsidiaries, proposals for the allocable budget shall be made by the Chairman & CEO of OTP Bank Plc with the involvement of the Deputy CEOs and, if necessary, the chairman of the Bank Group Subsidiary's governing body.

The decision regarding disbursement from the exceptional bonus limit, based on the proposal, shall be made by the party exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making. In the case of the chief executives of the Banking Group's subsidiaries, the decision is made by the body controlling owner's rights, while in the case of other executives employed by the Banking Group's subsidiaries, the decision is made jointly by the chief executive of the subsidiary concerned and the chairman of the shareholders' governing body.

## 7. Principles and rules concerning the payment of performance-based remuneration

### *7.1. Basic Principles*

- When assessing the performance of the year evaluated ("T year"), the amount of performance-based remuneration is determined and broken down to the level of individuals. The amount of performance-based remuneration payable from the general bonus limit is determined in consideration of individual performance, as well as the ratio of basic and performance-based remuneration achievable from the general bonus pool. The amount of the performance-based remuneration payable from the exceptional bonus pool may not be higher than 50% of the performance-based remuneration payable from the general bonus pool.
- For persons having a material impact on the risk profile at consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, depending on the beneficiary's choice, as remuneration converted into shares or as preferentially priced share award, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%. In the case of subsidiaries that have their registered office outside the area of Hungary, the performance-based remuneration is, as a

general rule, provided in the form of a cash bonus and, depending on the beneficiary's choice, a cash payment of an amount equivalent to that which the beneficiary would have received had he or she received remuneration converted into shares or a preferentially priced share award. This latter form of award must account for at least 50% of the performance-based remuneration.

- For persons at Hungarian subsidiaries exercising a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and a remuneration converted into shares, with the proviso that the proportion of share-based part within the performance-based remuneration is at least 50%.
- For persons employed at the foreign subsidiaries who have a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus plus a cash payment of an amount equivalent to that which the beneficiary would have received had he or she received a remuneration converted into shares. This latter form of award must account for at least 50% of the performance-based remuneration.
- For persons participating in a share award – not including any persons who join the OTP Bank ESOP Organisation as participants – the share-based portion of the variable remuneration shall be provided by OTP Bank Plc.
- As a general rule, for persons exercising a material impact on the risk profile at consolidated level, 60% of the performance-based remuneration is deferred, while for persons exercising a material impact on the risk profile at sub-consolidated and local level, 40% of such remuneration is deferred.
- The period of the deferment is at least 4 years – and in the case of the Chairman & CEO and the Deputy CEOs of OTP Bank Plc., 5 years – during which period the amount of the deferred payment is set annually, in equal proportions.
- Eligibility to receive such deferred instalments is determined based on an ex post assessment of risks. The assessment of risks takes place partly on the basis of criteria for assessing prudent operation, i.e. it is necessary to ensure that the capital remains above the minimum level of regulatory capital defined in the law, and that operations are conducted without a need to resort to the deposit insurance fund, and, secondly, it is linked to the activity of the persons concerned. On the basis of the assessment of risks related to the activity of the persons concerned, deferred amounts may be reduced or cancelled in the case of a significant breach of the internal regulations, with special respect to those concerning risk management.
- Entitlement to the deferred instalments is linked to the ex post assessment of risks, and is subject to the person's still being employed at the company at the time that the deferred instalment is due for payment. Exceptions to the above may only be validly authorised in respect of the executive directors (Chairman & CEO, Deputy CEOs) by OTP Bank's Supervisory Board, in the case of exceptional performance, whereas in respect of managers employed at the Bank and chief executives of subsidiaries identified at consolidated level, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc. In the case of other staff identified at consolidated level and for chief executives identified at sub-consolidated and local level, the head of OTP Bank Plc.'s Human Resources Management Directorate is entitled to authorise exceptions. For other staff identified at sub-consolidated and local level, exceptions are permitted based on the decision of the subsidiary's chief executive, subject to the consent of the chairperson of the shareholder's governing body. The Chairman-CEO of OTP Bank Plc. may exercise the right to authorise exceptions in respect of any subsidiary at any time.
- OTP Bank Plc.'s Supervisory Board is entitled to make decisions on the proportionate application of the rules set out in the remuneration guidelines in respect of the settlement of

the performance-based remuneration of staff identified at sub-consolidated and local level, whose annual performance-based remuneration does not exceed HUF 17,500,000 and whose performance-based remuneration within total remuneration for the year represents a ratio of maximum 33.3%. As part of proportionate application, the application of certain regulations (deferred payment, share-based payment) may be omitted either in part or in full, provided that such departure is not in conflict with local statutory or supervisory provisions.

### *7.2 Settlement rules*

- Settlement of the due instalments of performance-based remuneration takes place by 30th June in the year following the assessed period, at the latest.
- The number of shares that may be used for the settlement of performance-based remuneration taking the form of shares, broken down to individuals, must be determined as the quotient of the amount of performance-based remuneration taking the form of shares, and the share price determined by the Supervisory Board.
- The share price to be taken into account when determining the number of shares is set by the Supervisory Board on the basis of the arithmetic mean of the daily average prices of the ordinary shares issued by OTP Bank quoted at the Budapest Stock Exchange, on the three trading days preceding the date of the Supervisory Board's decision made within the 10 days preceding settlement of the performance-based remuneration.
- Concurrently with this, the specific terms and conditions of the preferentially priced share award are also determined, with the proviso that the share allowance granted at a discounted price may contain a maximum discount of HUF 6,000 at the time of performance assessment, and the profit content per share may amount to a maximum of HUF 12,000 at the time of vesting the share award.
- The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP Organisation. In the course of implementing the remuneration policy, shares or bonds issued by OTP Bank Plc. as founder and that constitute coverage for payment of an award to which the beneficiary is entitled as part of his or her performance-based remuneration, may be handed over to the ESOP Organisation, or may be purchased, or subscribed to, by the ESOP Organisation using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP Organisation, or through the purchase thereof or subscription thereto by the ESOP Organisation – in the manner set out in the ESOP remuneration policy – the beneficiary concerned shall acquire a member's holding in the ESOP Organisation. The member's holding in the ESOP Organisation is not a negotiable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, ex post assessment of risks) are fulfilled. Any member's holding that does not fulfil the conditions shall revert to the Bank or to the Bank's subsidiary that employs the individual concerned.
- Among the staff identified by the Banking Group's Remuneration Policy, the detailed terms of share-based performance remuneration awards granted through an ESOP Organisation may – within the constraints of the Group Remuneration Guidelines – be set by the Supervisory Board, with the proviso that participation of the beneficiaries in the ESOP Organisation, and thus the settlement of the performance remuneration through the ESOP Organisation, may only take place on the basis of the beneficiaries' voluntary decision.

The Supervisory Board of OTP Bank Plc., with the exception of matters placed under the authority of the General Meeting by law – with the obligation of subsequent information of the owners – is authorised to amend the Banking Group's Remuneration Policy.

***RESOLUTION PROPOSAL NO. ….../2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting in line with the annex of the resolution, on a consultative basis, approves the group remuneration guidelines of OTP Bank Plc. and requests the Supervisory Board of the Company to define the rules of the Banking Group's remuneration policy in detail, in line with the group remuneration guidelines.*

# AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

*Pursuant to both Act V of 2013 on the Civil Code (hereinafter referred to as "**Civil Code**") and Article 8 Section 33 Subsection 13 of OTP Bank Plc's (hereinafter referred to as "**Company**") Articles of Association, the General Meeting has the power to authorize the Board of Directors to acquire treasury shares.*

*The Board of Directors acting in the competency of the Annual General Meeting of 2020, in its resolution no. 94/2020, authorized the Board of Directors to acquire treasury shares ("Authorization"). This Authorization expires on 15 October 2021; however, the authorization may be reissued.*

*This aforementioned renewed authorization is provided by the resolution constituting the subject matter of this proposal. The authorization, in accordance with the statutory requirements, is subject to limitations of time and extent, which are specified in the resolution to be submitted to the meeting of the Board of Directors acting in the competency of the Annual General Meeting of 2021. Pursuant to the provisions of the Civil Code, the authorization of the Board of Directors is valid for 18 months, and the number of treasury shares acquirable by the Company may not exceed an extent equivalent to 25 per cent of the share capital. In the previous years, the purpose of the authorization to acquire treasury shares has been always given by the Company. It was defined as the purpose of the authorization for the Board of Directors to acquire treasury shares in the interests of, for instance,*

*(i) supplying the shares necessary for the management incentives system that is in place at the Company,*
*(ii) developing and maintaining the Company's services provided to its customers and*
*(iii) implementing transactions related to the optimisation of the Company's capital.*

*The authorization of the general meeting is necessary, but not in itself sufficient, prerequisite for the execution of treasury-share purchases. This is because under EU rules[110] relating to the purchase of treasury shares every treasury-share purchase transaction needs to be authorized by the National Bank of Hungary (hereinafter referred to as "**MNB**"), either for each purchase individually or – if this is legally possible – based on a limit-type authorization (hereinafter referred to as "**Permission of MNB**"). The Company has the necessary General Prior Permission of MNB for purchasing treasury shares to enable the purposes of the Authorization to be fulfilled. The General Prior Permission expires on 25 June 2021, the regular extension is being scheduled. The Company in order to ensure the payments as part of the remuneration policy is primarily obtaining individual fixed-term Permissions of MNB.*

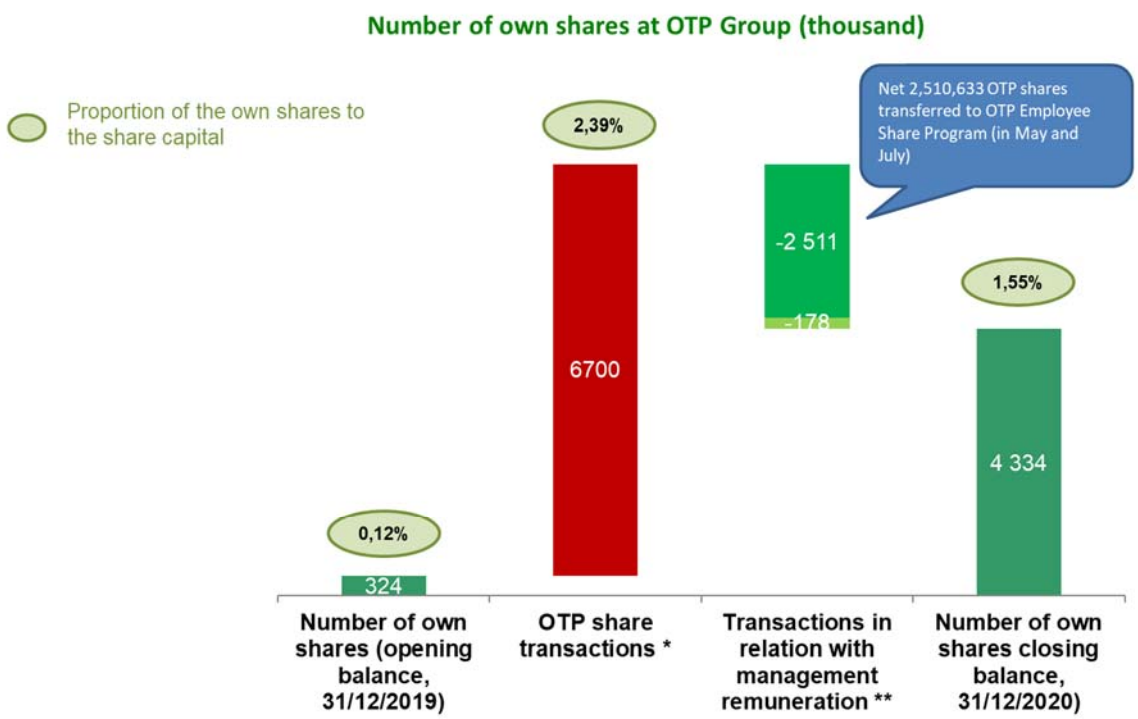
*Based on the authorization granted by the general meeting and on the permission of the MNB, the share transactions may be concluded on the regulated market (the stock exchange), or outside of such market (OTC-transaction).*

*OTC transactions shall take into account the obligations set out in Article 23 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 (MiFIR) on trading obligations that, as a general rule, transactions in OTP shares admitted to trading on a regulated market, may take place on a regulated market, an MTF or a regular internaliser, as the case may be, or an equivalent third country trading venue.*

*To prevent the simultaneous existence of two authorizations, the authorization set forth in the resolution no. 94/2020 of the Board of Directors acting in the competency of the Annual General Meeting shall lose its effect upon the passing of the proposed resolution. The Company publishes data relating to treasury shares and to the transactions that involve such shares in accordance with the effective statutory provisions and in all cases provides information to the shareholders at the forthcoming general meeting. Information on last year are obtained in the Annex No. 1.*

[110] Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), and Commission Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions

## Annex No.1




* Treasury share transactions performed to facilitate the transactions occurring within the framework of the remuneration policy: shares acquired via market transactions between 01.01.2020 and 31.12.2020, a total of 6,700,000 shares, with a total nominal value of HUF 670,000,000; with a total gross amount of HUF 70,664,986,218 (average price: HUF 10,547), proportion to the share capital: 2.39%. Additionally due to the transactions carried out within the framework of mandatory quotation hedging the number of own shares decreased by 384.

** OTP share transactions related to share-based payments for employees under the remuneration policy between 01.01.2020 and 31.12.2020.

***RESOLUTION PROPOSAL No. …./2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in competency of the Annual General Meeting, based on the Subsection 1 of Section 3:223 of Act V of 2013 on the Civil Code, hereby authorizes the Board of Directors of OTP Bank Plc. (hereinafter referred to as "Bank") to acquire own shares of the Bank especially for the purpose of supplying the shares necessary for the management incentives system that is in operation at the Bank, creating the opportunity for rapid intervention in the event of share price fluctuations, developing and maintaining the services provided to customers, and executing transactions related to optimization of the Company's capital.*

*The Board of Directors is authorized to acquire a maximum of as many ordinary shares issued by the Bank with a nominal value of HUF 100 that is one hundred forints, as ensures that the portfolio of own shares, in respect of the measure stipulated in the frame-permissions of the Magyar Nemzeti Bank, does not exceed 70,000,000 shares at any moment in time.*

*Should the acquisition of own shares take place in a reciprocal transaction, then the consideration applied in such transaction may be a minimum of the share's nominal value, and a maximum of 150% of the highest price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction, or, in the case of a stock-exchange transaction, 120% of the closing price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction. The Board of Directors may exercise its rights set forth in this mandate until 16 October 2022. The mandate set forth in the decision of the Board of Directors acting in the competency of the Annual General Meeting resolution no. 94/2020 shall lose its effect upon the passing of this resolution.*

# ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

## ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

With regard to the proposed nomination of one of the current members of the Supervisory Board as member of the Board of Directors by the Board of Directors, a new member shall be appointed to the Supervisory Board.

***Candidate:***

**Dr. Tamás Gudra**

Dr. Tamás Gudra graduated as business administrator in 1993 and as a Hungarian chartered accountant in 1997 from the College of Commerce and Catering. He also acquired a university degree in 2010 as a lawyer at the Faculty of law of Janus Pannonius University in Pécs. He worked as an auditor from 1993 to 2001 at Deloitte & Touche. Between 2001 and 2003 he was an accounting coordinator of subsidiaries at the Accounting and Tax Directorate of the Hungarian Oil and Gas Public Limited Company (MOL Rt). Then he took a managing director role at the Auditor, Financial and Accounting Directorate of the National Privatization and Asset Manager cPlc. (ÁPV Zrt.) between 2003 and 2007 and subsequently became the director of Controlling Directorate at the Hungarian National Asset Manager Plc. (MNV Zrt.) from 2008 to 2010. Following these assignments, he worked as the CFO of the Hungarian Football Association from 2011 until June of 2020. As of July 2020, he became the group-level CFO of Bonafarm Zrt. He is a member of the Supervisory Board of OTP Lakástakarék Zrt. since 2012 and member of the Hungarian Paralympic Committee's Supervisory Board since 2016.

***RESOLUTION PROPOSAL No. …./2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. Tamás Gudra as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.*

# ELECTION OF THE MEMBER OF THE AUDIT COMMITTEE

## ELECTION OF THE MEMBER OF THE AUDIT COMMITTEE

The members of the Audit Committee are elected by the General Meeting from among the independent members of the Supervisory Board. Audit Committee shall have at least 3 members. With regard to the proposed nomination of one of the current member of the Audit Committee as member of the Board of Directors, a new member shall be appointed to the Audit Committee. The proposed new member meets the requirement that one of the members of the Audit Committee shall have a professional qualification in accounting or in financial auditing.

***Candidate:***

**Dr. Tamás Gudra**

Dr. Tamás Gudra graduated as business administrator in 1993 and as a Hungarian chartered accountant in 1997 from the College of Commerce and Catering. He also acquired a university degree in 2010 as a lawyer at the Faculty of law of Janus Pannonius University in Pécs. He worked as an auditor from 1993 to 2001 at Deloitte & Touche. Between 2001 and 2003 he was an accounting coordinator of subsidiaries at the Accounting and Tax Directorate of the Hungarian Oil and Gas Public Limited Company (MOL Rt). Then he took a managing director role at the Auditor, Financial and Accounting Directorate of the National Privatization and Asset Manager cPlc. (ÁPV Zrt.) between 2003 and 2007 and subsequently became the director of Controlling Directorate at the Hungarian National Asset Manager cPlc. (MNV Zrt.) from 2008 to 2010. Following these assignments, he worked as the CFO of the Hungarian Football Association from 2011 until June of 2020. As of July 2020, he became the group-level CFO of Bonafarm Zrt. He is a member of the Supervisory Board of OTP Lakástakarék Zrt. since 2012 and member of the Hungarian Paralympic Committee's Supervisory Board since 2016.

***RESOLUTION PROPOSAL No. …./2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. Tamás Gudra as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year, but not later than 30 April 2023.*

# DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

## DETERMINATION OF THE REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

The remuneration of the members of OTP Bank's **Supervisory Board** and the **Audit Committee** is **determined by the General Meeting**.

The current remuneration of members of theses governing bodies was determined by the General Meeting in its resolution No. 10/2017. The monthly honorarium of the members of the Supervisory Board consists of a fixed-amount remuneration settled in Hungarian forints. The members of Audit Committee do not receive any remuneration.

In the case of the members of the Supervisory Board, the honorarium does not include a share-based component and its amount has not changed since 2017. Considering that since the last modification of the remuneration of the Supervisory Board in 2017, the OTP Banking Group has produced outstanding results, by acquiring 7 new subsidiaries the Banking Group has entered 3 new countries in addition to the existing ones (Albania, Moldova, Slovenia), thus, the scope and complexity of the Banking Group have also undergone significant changes. In view of these changes, it is recommended that the monthly remuneration of the Supervisory Board is determined as of 16 April 2021 as follows:

- Chairman of the Supervisory Board: HUF 4,000,000
- Deputy Chairman of the Supervisory Board: HUF 3,500,000
- members of the Supervisory Board: HUF 3,000,000

In the case of the Audit Committee – considering that its members are also members of the Supervisory Board – no remuneration is proposed.

***RESOLUTION PROPOSAL No. ….../2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting determines the monthly remuneration of the members of the Supervisory Board as follows:*

- *Chairman of the Supervisory Board: HUF 4,000,000*
- *Deputy Chairman of the Supervisory Board: HUF 3,500,000*
- *members of the Supervisory Board: HUF 3,000,000*

*The members of the Audit Committee shall not receive a remuneration.*

# ELECTION OF AND THE DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

## ELECTION OF AND THE DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

Taking into consideration that the mandate of members of the Board of Directors expire on the day of the annual General Meeting closing the business year of 2020 (or on 30th April 2021 at the latest), Board of Directors members shall be appointed. According to the Articles of Association of OTP Bank, the Board of Directors shall consist of 5 to 11 members. The members of the Board of Directors are elected by the General Meeting for an unlimited period of time or for a fixed period of five years.

***Candidates:***

**Dr. Sándor Csányi** *(BoD candidate as internal member)*

He graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Karl Marx University of Economic Sciences with a degree in economics, where he also got his doctorate in 1983. He is an economist with a specialisation in finance, and a certified auditor.
After graduation, he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989, he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992.
He has been Chairman& CEO of OTP Bank Plc. since 1992.
He is the Vice Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council.
He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015. Since April 2017, he has been a member of the FIFA Council. In February 2018 he was elected Vice President of FIFA and in February 2019 Vice President of UEFA.

**Antal György Kovács** *(BoD candidate as internal member)*

He graduated from the Karl Marx University of Economic Sciences with a degree in economics.
He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995.
He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO.
He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute.
Between April 2007 and April 2012 he was Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
From 2004 to 14 April 2016 he was a member of OTP Bank's Supervisory Board. He has been a member of OTP Bank's Board of Directors since 15 April 2016.

**László Wolf** *(BoD candidate as internal member)*

He graduated from the Karl Marx University of Economic Sciences in 1983. After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993.
From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. Member of DSK Bank's Supervisory Board.
He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010. He has been the Chairman of the Supervisory Board of OTP Real Estate Ltd between 30th June 2014 and 9th September 2018.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.

**Tamás György Erdei** (*BoD candidate as external member*)

He graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was Chairman & CEO.
Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association. He is the chairman of the Supervisory Board of the International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014. Since 12 April 2019 he is Vice Chairman of the Board of Directors.

**Mihály Baumstark** (*BoD candidate as external member*)

He graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Karl Marx University of Economic Science (1981).
He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2011 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired.
He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999.
He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.

**Dr. István Gresa** (*BoD candidate as external member*)

He graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Karl Marx University of Economic Sciences in 1980. He earned a PhD from the University of Economic Sciences in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division.
Between 2006 and 2017 he was also Chairman of the Board of Directors at OTP Factoring Ltd.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.

**Dr. József Zoltán Vörös** (*BoD candidate as external member*)

He earned a degree in economics from the Karl Marx University of Economic Sciences in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013.
Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University.
From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, between 2007 and 2011 he was chairman of the Board of Trustees.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.

**Péter Csányi** (*BoD candidate as internal member*)

Péter Csányi earned a Bachelor of Science Degree in Economics from the City University, London in 2006, a Masters Degree in Financial Management from Instituto de Empresa, Madrid in 2007 and a diploma in Master of Business Administration (M.B.A.) from Kellogg School of Management, Evanston IL in 2015. He worked as an intern in Merrill Lynch International, London between 2005 and 2006. He worked an associate at Deutsche Bank AG in London between 2007 and 2011 and subsequently became a senior associate at McKinsey & Company in Budapest, where he worked between 2011 and 2016.
He has been the managing director of the Digital Sales and Development Directorate of OTP Bank Plc. since 2016, tribe lead of the Omnichannel Tribe since 2019 and leader of the Daily Banking Tribe since 2021. Since March 2021 he has been Deputy CEO of the IT Division.
He has been a member of the Board of Directors of JSC "OTP Bank" (Russia) between 2017 and 2021, and the chairman of the Supervisory Board of OTP banka d.d. since 2020.

**Gabriella Balogh** *(BoD candidate as external member)*

Gabriella Balogh graduated as organizing chemical engineer from the University of Veszprém in 1993 and as marketing economist from the University of Economics, Budapest in 1997. She worked as a marketing associate between 1993 and 1998, as director of the Marketing Department from 1998 to 2005 and as managing director of the Marketing and Sales Directorate between 2005 and 2008 at OTP Bank Plc. She has been managing

director of GoodStep Consulting Kft. since 2008. She fulfilled group management tasks as a Board of Directors member at the Central European Media and Publishing Company between 2010 and 2017. She has been co-owner and Board of Directors member of Net Media Plc. since 2016. She is Presidium member and chair of the Marketing and Media Board of the Hungarian Football Association, as well as member of the Council of Masters and honorary associate professor at the Metropolitan University, Budapest.

**György Nagy** *(BoD candidate as external member)*

György Nagy graduated from the Department of International Foreign Economics of University of International Relations (Moscow) in 1989. He was a founding owner of Wallis Holding (founded in 1990) and he managed the Wallis Group as CEO until 2000. He founded Westbay Holding Kft in 2004, which company's portfolio includes several successful investments. He has been the chairman of the Hungarian Shooters Federation since 2012, Presidium member of the European Shooting Confederation (ESC) since 2013 and Council member of the International Shooting Sport Federation since 2019.

**Dr. Márton Gellért Vági** (*BoD candidate as external member*)

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Karl Marx University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994.
From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board.
Since 2010 he has been general secretary of the Hungarian Football Association.
He has been a member of the UEFA HatTrick Committee since 2011 and of FIFA's Financial Committee since 2017.
He has authored or co-authored more than 80 research papers, essays and books.
He has been a member of OTP Bank's Supervisory Board since 2011. He has been a member of OTP Bank's Audit Committee since 2014.

**Establishment of the remuneration of the members of the Board of Directors**

The remuneration of the members of OTP Bank's Board of Directors is determined by the General Meeting.

The current remuneration of members of the Board of Directors was determined by the General Meeting in its resolution No. 9/2016. The honorarium of the members of the Board of Directors consists of a fixed remuneration settled monthly in Hungarian forints, and ordinary shares of OTP Bank Plc.

In the case of the honorarium of the Board of Directors, the value of the honorarium provided in the form of ordinary shares has been continuously increasing since its establishment in 2016; its current value still exceeds the value of the share-based honorarium at time of its determination, therefore, **there is no reason to change the honorarium of the members of the Board of Directors** specified in resolution No. 9/2016 of the General Meeting.

***RESOLUTION PROPOSAL No. …./1/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. Sándor Csányi as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Dr. Sándor Csányi shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./2/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Antal György Kovács as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. Antal György Kovács shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./3/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. László Wolf as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. László Wolf shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./4/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Tamás György Erdei as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. Tamás György Erdei shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./5/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Mihály Baumstark as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. Mihály Baumstark shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./6/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. István Gresa as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Dr. István Gresa shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./7/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. József Zoltán Vörös as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Dr. József Zoltán Vörös shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./8/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. Péter Csányi as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. Péter Csányi shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./9/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mrs. Gabriella Balogh as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mrs. Gabriella Balogh shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./10/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Mr. György Nagy as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Mr. György Nagy shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*

***RESOLUTION PROPOSAL No. …./11/2021 OF THE BOARD OF DIRECTORS***

*The Board of Directors acting in the competency of the Annual General Meeting, elects Dr. Gellért Márton Vági as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2025 business year, but not later than 30 April 2026 with the proviso that Dr. Gellért Márton Vági shall be entitled to remuneration in line with resolution No. 9/2016 of the General Meeting.*