OTP MORTGAGE BANK LTD.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION AND INDEPENDENT AUDITOR’S REPORT

FOR THE YEAR ENDED
31 DECEMBER 2021

CONTENTS

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
Cash, amounts due from banks and balances with the National Bank of Hungary	*5.*	15,647	6,313
Placements with other banks, net of allowance for placement losses	*6.*	151,975	125,781
Securities at fair value through other comprehensive income	*7.*	16,037	18,273
Loans at amortised cost	*8.*	1,134,767	1,000,832
Loans mandatorily measured at fair value through profit or loss		405,810	318,035
Securities at amortised cost	*9.*	175,125	108,455
Intangible assets	*10.*	191	192
Property and equipment	*10.*	52	66
Right of use assets	*10.*	338	462
Derivative financial assets designated as hedge accounting relationships	*11.*	5,397	442
Deferred tax assets		216	-
Current tax assets		5	1,061
Other assets	*12.*	5,022	5,007
TOTAL ASSETS		**1,910,582**	**1,584,919**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*13.*	1,022,772	692,906
Liabilities from issued securities	*14.*	772,011	807,513
Derivative financial liabilities designated as hedge accounting relationship	*15.*	1,804	780
Deferred tax liabilities		-	4
Current tax liabilities		363	492
Provisions		480	147
Leasing liabilities	*26.*	869	844
Other liabilities	*16.*	8,543	6,355
TOTAL LIABILITIES		**1,806,842**	**1,509,041**
Share capital	*17.*	37,000	37,000
Retained earnings and reserves	*18.*	66,740	38,878
TOTAL SHAREHOLDER'S EQUITY		**103,740**	**75,878**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,910,582**	**1,584,919**

Budapest, 24 March 2022

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András Becsei
Chief Executive Officer

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Petra Szudárovicsné Csonka
Chief Financial Officer

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
Interest income:			
Interest income calculated using the effective interest method	*20.*	64,725	56,687
Income similar to interest income	*20.*	15,202	13,091
Total Interest Income		**79,927**	**69,778**
Total Interest Expense	**20.**	**(43,816)**	**(34,740)**
NET INTEREST INCOME		**36,111**	**35,038**
Loss allowance on loan, placement and repo receivables losses		912	(16,061)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost		(157)	(184)
Provision for loan commitments and financial guarantees given		(47)	(214)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(986)	(2,851)
Risk cost total	*21.*	**(278)**	(19,310)
NET INTEREST INCOME AFTER RISK COST		**35,833**	**15,728**
Losses arising from derecognition of financial assets measured at amortised cost	*23*	(57)	(205)
Modification loss	*4.*	(6,034)	(9,584)
Income from fees and commissions	*22.*	6,400	3,941
Expenses from fees and commissions	*22.*	(9,964)	(8,398)
Net profit from fees and commissions		**(3,564)**	**(4,457)**
Foreign exchange gains	*23.*	(3)	(9)
Gains / (Losses) on financial instruments at fair value through profit or loss	*23.*	4,941	(921)
Net other operating (expense) / income	*24.*	(7)	(542)
Other operating expenses	*24.*	(112)	83
Net operating income / (expense)		**4,819**	**(1,389)**
Personnel expenses	*24.*	(1,332)	(1,326)
Depreciation and amortization	*24.*	(267)	(293)
Other administrative expenses	*24.*	(4,385)	(4,025)
Other administrative expenses		**(5,984)**	**(5,644)**
(LOSS) / PROFIT BEFORE INCOME TAX		**25,013**	**(5,551)**
Income tax expense	*26.*	(2,175)	(1,034)
NET (LOSS) / PROFIT FOR THE PERIOD		**22,838**	**(6,585)**
Earnings per share (in HUF)			
Basic and diluted	*28.*	61,724	(17,797)

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
NET PROFIT / (LOSS) FOR THE PERIOD	18.	**22,838**	**(6,585)**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income	*18.*	(1,825)	(240)
Deferred tax related to securities fair value through other comprehensive income	*18.*	164	23
Gains on derivative financial instruments designated as cash flow hedge	*36.*	6,652	292
Other comprehensive income, net of income tax		**4,991**	**75**
NET COMPREHENSIVE INCOME / (LOSS)		**27,829**	**(6,510)**

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Share Capital	**Capital reserve**	**Retained earnings and other reserves**	**Total**
Balance as at 1 January 2020	**37,000**	**476**	**44,878**	**82,354**
Net loss for the period	-	-	(6,585)	(6,585)
Other comprehensive income	-	-	75	75
Total comprehensive loss	-	-	38,368	75,844
Share-based payment	-	-	34	34
Balance as at 31 December 2020	**37,000**	**476**	**38,402**	**75,878**
Balance as at 1 January 2021	**37,000**	**476**	**38,402**	**75,878**
Net profit for the period	-	-	22,838	22,838
Other comprehensive income	-	-	4,991	4,991
Total comprehensive loss	-	-	66,231	103,707
Share-based payment	-	-	33	33
Balance as at 31 December 2021	**37,000**	**476**	**66,264**	**103,740**

OTP MORTGAGE BANK LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021.12.31	2020.12.31
OPERATING ACTIVITIES			
Profit before income tax		25,013	(6,636)
Net interest (paid) / received		(2,744)	(8)
Depreciation and amortization		267	293
Loss allowance on loans and placements	*21.*	(912)	16,250
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	*21.*	1	11
Loss allowance / (Release of loss allowance) on securities at amortised cost	*21.*	156	173
Loss allowance / (Release of loss allowance) on other assets	*12.*	(21)	57
Provision on off-balance sheet commitments and contingent liabilities	*16.*	24	45
Share-based payment	*31.*	33	34
Unrealised losses / (gains) on fair value adjustment of financial instruments at fair value through profit or loss	*21.*	(3,955)	2,851
Unrealised losses on fair value adjustment of derivative financial instruments		(4,005)	3,228
Interest expense form leasing liabilities	*27.*	(7)	(8)
Foreign exchange loss		1	(2)
Proceeds from sale of tangible and intangible assets		(3)	(7)
<u>Net changing in assets and liabilities in operating activities</u>			
Net increase in placements with other banks before allowance for placement losses	*6.*	(26,169)	9,921
Net increase in loans		(213,978)	(158,452)
Increase in other assets, excluding advances for investments and before provisions for losses	*12.*	1,055	(3,448)
Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	*13.*	329,697	15,893
(Decrease) / Increase in other liabilities	*16.*	699	(2,979)
Net increase in the compulsory reserve established by the National Bank of Hungary		(17)	-
Income tax paid	*26.*	(1,066)	-
Net cash provided by operating activities		**104,070**	**(122,784)**

INVESTING ACTIVITIES			
Proceeds from sale of securities at fair value through other comprehensive income	*7.*	7,720	721
Change in derivative financial instruments designated as hedge accounting		74	(3,480)
Increase in securities at amortised cost	*9.*	(68,170)	(109,852)
Redemption of securities at amortised cost	*9.*	1,344	1,224
Additions to property, equipment and intangible assets	*10.*	(118)	(147)
Disposal of property, equipment and intangible assets	*10.*	3	7
Net cash used in investing activities		**(59,147)**	**(111,527)**
FINANCING ACTIVITIES			
Leasing payments		(126)	(107)
Cash received from issuance of securities	*14.*	88,650	310,100
Cash used for redemption of issued securities	*14.*	(124,130)	(71,953)
Net cash (used in) / provided by financing activities		**(35,606)**	**238,040**
Net increase / (decrease) in cash and cash equivalents		**9,317**	**3,729**
Cash and cash equivalents at the beginning of the year		**6,302**	**2,573**
Cash and cash equivalents at the end of the year		**15,619**	**6,302**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Group") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These consolidated financial statements authorised for issue on 24 March 2022. The Bank's owners have the power to amend the separate financial statements after issue if applicable.

The Group completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Consolidated Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank's registered office address is Nádor u. 21, Budapest 1051.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the consolidated financial statements is the Executive Officer, András Becsei and Head of Department, Petra Szudárovicsné Csonka.

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Ernst &Young Auditing Ltd. (001165), 1132 Budapest Váci Street 20. Registered under 01-09-267553 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zsuzsanna Nagyváradiné Szépfalvi, registration number: 005313.

Audit service fee agreed by the Articles of Association for the year ended 2020 is an amount of HUF 46.6 million + VAT.

The Group is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Group is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Group provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans.. From 2017, the Group expanded their services with independent liens purchase and sale by instalment, provided also by refinancing loans to commercial banks.

The Group employs limited number of staff at its head office and use 354 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Group's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Group. Details of related party balances and transactions are summarised in Note 33 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Group is 16,16 years. The Group is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2021 and 2020 the number and the average number of the employees at the Bank were 104 and 103 respectively.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2. Base of Accounting

The Group maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

OTP Mortgage Bank's presentation and functional currency is the Hungarian Forint ("HUF").

The consolidate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").As adopted by the European Union Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets.

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2021

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 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)
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 "Leases" – "**Covid 19-Related Rent Concessions beyond 30 June 2021" (effective for annual periods beginning on or after 1 April 2021),

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's 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 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture"**– "Annual Improvements to IFRSs 2018-2020 Cycle" - adopted by EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – adopted by the EU on 28 June 2021 Annual Improvements (effective fog annual periods beginning on or after 1 January 2022)
- **Amendments to IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2023),

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 date of publication of these financial statements:

- **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).
- **Amendments to IAS 12 "Income Taxes" –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 "Insurance Contracts" –** Initial application of IFRS 17 and IFRS 9 – Comparative Information (effective date for annual periods beginning on or after 1 January 2023)

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 consolidated 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 Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

During the preparation of separate financial statements assets and liabilities, income and expenses are presented separately, except in certain cases, when one of the IFRS standards prescribes net presenting related to certain items. (See below 2.7.)

The presentation of separate financial statements in conformity with IFRS 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 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 at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. on the transaction date. Resulting foreign exchange gains or losses are recorded to the Consolidate Statement of Profit or Loss.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Group. Consolidated financial statements are prepared by the Group and consolidated net profit for the year and shareholders' equity differ 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 are published on the same date. As the ultimate parent, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Group, through direct and indirect ownership interest, controls the investee. Control is achieved when the Group 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.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities at fair value through other comprehensive income ("FVOCI securities")

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 Group 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.

2.6.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very 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 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 Mortgage 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 all of its open derivative transactions collateralised.

The Group has certain swap and forward transactions, which are qualified as hedging instrument based on the Group's risk management policy. However, these financial instruments are not qualified as hedging instrument based on IFRS 9, therefore the Group qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Consolidate Statement of Profit or Loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and included in the Consolidate 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.

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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Group for risk management purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Interest rate swaps

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 Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

[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 designated as a fair-value or cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as 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. The ineffective portion of the hedge is charged directly to the Consolidated Statement of Recognized Income.

The conditions of hedge accounting applied by the Group are the following: formally designed as hedge, 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.

2.7. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Group 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 Group 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.

2.8. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting 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.

The Group has not had embedded derivatives in 2021 and in 2020.

2.9. Loans, placements with other banks and allowance for loan and placement losses

The Group 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 Group recognises loans, 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 ("FVTPL loans").

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.

In case of the above mentioned financial assets measured at amortised cost transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation. In case of FVTPL loans fees and charges are recognised when incurred in the separate statement of profit or loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Loans, placements with other banks and allowance for loan and placement losses [continued]

Loans, placements with other banks and repo receivables loans 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. In case of the above mentioned financial assets at amortised cost gains or losses from derecognition are presented in “Gains/losses arising from derecognition of financial assets at amortised cost” line. In case of FVTPL loans gains or losses from derecognition are presented in “Net operating income”.

Change in the fair value of FVTPL loans is broken down into two components and presented in the separate statement of profit or loss as follows:

- Portion of the change in fair value arising from changes in credit risk are presented 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”.
- The remaining component of the change is presented in fair value within “Net operating income” as “Gains/(Losses) on financial instruments at fair value through profit or loss”.

Initially, financial assets shall be recognised at fair value which is usually equal to the transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial assets is based on a valuation technique using only inputs observable in market transactions, the Group recognises the initial fair value difference in the Separate Statement of Profit or Loss.

When the fair value of financial assets is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and only recognised in profit or loss when the instrument is derecognised or the inputs became observable.

Initial fair value of loans lent at interest below market conditions is lower than their transaction price.

Allowance for losses on loans, placements with other banks and repo receivables represent management assessment for potential losses in relation to these activities.

The Group recognises 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.

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.

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 Group 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 statement of profit or loss. Interest income and amortised cost are accounted for using the effective interest rate method.

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 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 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, the Group shall re-estimate cash flows of a financial asset and write-off reversal is applied in the financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Loans, placements with other banks and allowance for loan and placement losses [continued]

Modification of contractual cash flows

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 separate statement of profit or loss. Modification gain or loss is accounted in cases like restructuring – as defined in internal policies of the Group – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been earlier.

The changes of net present value should be calculated on portfolio level in case of retail exposures. Each retail contract is restructured based on restructuring frameworks. The Group 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.

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 unamortised fees of the derecognised asset should be presented as Income similar to interest income. The newly recognised financial asset is initially measured at fair value and is placed in stage 1 if the derecognised financial asset was in stage 1 or stage 2 portfolio. The newly recognised financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognised 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.

Originated credit impaired financial assets

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.

In the case of POCI financial assets, interest income is always recognized by applying the credit-adjusted effective interest rate.

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.

2.10 Loss allowance

Loss Allowance for loans and placements with other banks and repo receivables are recognised by the Group 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.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. Collective impairment loss is recognised for loans with similar credit risk characteristics when it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence. The expected cash flows for loan portfolios are estimated based on historical loss experience.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10 Loss allowance [continued]

At subsequent measurement the Group 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.

Classification into risk classes

According to the requirements of the IFRS9 standard, the Group 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,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- 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.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. This might occur if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers souvereign exposures having low credit risk.

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]

2.10 Loss allowance [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 Group 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.

2.11. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral inspector - and as required additional collateral – determined by law – registered in the Group's collateral register.

2.12. 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 computed 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% - 2.0%
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 Group 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 Group 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 written down immediately to the estimated recoverable amount.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. 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.

2.14. 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 IFRS 16 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: ~2.9375%

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 1.5 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.

Right-of-use assets are presented separately in the financial statements.

2.15. 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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. 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.

For exposures categorized into stage 1 and stage 2 the interest income is recognized on a gross basis. For exposures categorized into stage 3 (using effective interest rate) and for POCI (using credit-adjusted effective interest rate) the interest income is recognized on a net basis.

The time-proportional income similar to interest income of derivative financial instruments calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in income similar to interest income. Interest income of FVTPL loans is calculated based on interest fixed in the contract and presented in "Income similar to interest income" line.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction cost and the amortisation of any discount and 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 recognised are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortised 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.

2.17. Fees and Commissions

Fees and commissions that are not involved in the amortised cost model are recognised in the Consolidate Statement of Profit or Loss on an accrual basis according to IFRS 15. These fees are related to deposits, cash withdrawal, security trading, bank card, etc.

The Group recognise income if performance obligations related to the certain goods or service are satisfied, performed, and control over the asset is transferred to the customer, and it is probable that consideration payable will probably flow to the entity. In case of those service, where the Bank transfer control over the asset continuously, income is recognised on accrual basis.

2.18. Income tax

The Bank considers corporate income tax and local business tax and the innovation contribution as income tax in Hungary. 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 and liabilities are presented in a net way in the statement of financial position. Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the statement of financial position.

Deferred tax assets are recognized by the Group 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.

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 considers the availability of qualifying taxable temporary differences and the probability of other future taxable profits to determine whether future taxable profits will be available.
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 Group 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18 Income tax [continued]

The Group only offsets its deferred tax liabilities against deferred tax assets when:

- there is a legally enforceable right to set-off current tax liabilities against current tax assets, and
- the taxes are levied by the same taxation authorities on either
    - the same taxable entity or
    - different taxable entities which intend to settle current tax liabilities and assets on a net basis.

The Group 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. Therefore, the banking tax is considered as an other administrative expense, not as income tax.

Pursuant to the Corporate Tax Act, Jelzálogbank Zrt. Is a member of the corporate tax group represented by OTP Bank.

2.19 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as 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 which are under IAS 37 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 Group 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. After initial recognition the Group subsequently measures those contracts at a higher of the amount of the loss allowance or of the amount initially recognised less the cumulative amount of income recognized in accordance with IFRS 15.

2.20. Government subsidies

The Group receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Consolidate Statement of Profit or Loss in the period to which they relate.

2.21. Share-based payment and employee benefit

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Group 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 Group has applied the requirement of IAS 19 Employee Benefits. The Group's short-term employee benefits are wages, salaries and bonuses, premium, paid annual leave and paid sick leave and other free services (health care, reward holiday). Short-term employee benefits are expected to pay by the Bank within 12 month. These benefits are recognised as an expense and liability undiscounted in the separate financial statements.

Long-term employee benefits are mostly the jubilee reward. Long-term employee benefits are recognised as an expense and liability in the separate financial statements. Liabilities are regularly remeasured. Gains or losses due to the remeasurement are recognised in the separate statement of profit or loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. 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 cash flows “Cash, due from banks and balances with the NBH” line item excluding compulsory reserve are considered as cash and cash equivalents by the Group. This line item shows balances of HUF and foreign currency cash amounts, and sight depos from NBH and from other banks, furthermore balances of current accounts.

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 separately net in the statement of cash flows for the monetary items which have been revaluated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.23. Comparative figures

Reclassification of certain local taxes

The Bank has reviewed prescriptions related to local taxes, the determination of their tax base and their effects on payment obligation. As a result of the review the local business tax and innovation contribution have been reclassified to income tax in line with banking industry practice. In the financial statements prepared for the year ended 31 December 2021 the Bank presents these taxes as income tax and reclassified the financial information for comparative periods. Derecognition of financial assets at amortized cost is presented separately in the separate statement of profit or loss. Those items are to be separated from those results which previously contained them. In the separate financial position there is provision for conditional liability to be separated from other liabilities which previously contained them. All these reclassifications were necessary to improve presentation.

Statement of Financial Position

Line item	31 December 2021	31 December 2020 after reclassification	Reclassification of amounts related to local taxes	31 December 2020 Previously presented
Current tax assets	**5**	**1,061**	**-**	**1,061**
Other assets	**5,022**	**5,007**	**-**	**5,007**
TOTAL ASSETS	**1,910,582**	**1,584,919**	**-**	**1,584,919**
Current tax liabilities	**480**	**147**	147	**-**
Other liabilities	**9,412**	**7,199**	(147)	**7,346**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,910,582**	**1,584,919**	-	**1,584,919**

Statement of Profit or Loss

Line item	Year ended 31 December 2021	Year ended 31 December 2020 after reclassification	Reclassification of amounts related to local taxes	Year ended 31 December 2020 Previously presented
Taxes, other than income tax	2,378	2,177	(1,085)	3,262
Other administrative expenses	**4,385**	**4,025**	**(1,085)**	**5,110**
OTHER ADMINISTRATIVE EXPENSES	**5,984**	**5,644**	**(1,085)**	**6,729**
PROFIT BEFORE INCOME TAX	**25,013**	**(5,551)**	**(1,085)**	**(6,636)**
Income tax	(2,175)	(1,136)	(1,085)	-51
NET PROFIT FOR THE YEAR	**22,838**	**(6,585)**	**-**	**(6,585)**

Amendments to the information published in the supplementary annexes concerned the following supplementary notes

Note	Name of the Note
16	Other liabilities and provisions
24	Other operating income and expenses and other administrative expenses
26	Income tax

The Bank has reclassified the presentation of the detailed notes to the amended statement of financial position and statement of profit or loss line items for comparative information in accordance with the new values. These amendments have been marked “Reclassified” by the Bank

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 the European Union requires the management of the Group 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 historical experience 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. Impairment on loans and placements

The Group regularly assesses its loan portfolio 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.

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 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 recognised based on the credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

Other provision is recognized 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 19.)

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 recognized 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.

NOTE 4: COVID-19

Covid-19 has had substantial implications for the operations of the Bank during 2021. Below are some of the more important Covid-19 related events that occurred in Hungary:

- On 1 April 2021 Moody’s rating agency upgraded the outlook on the Hungarian banking sector from negative to stable
- On 25 May 2021 the National Bank of Hungary did not touch the benchmark interest rates, but stressed that the central bank is ready to tighten monetary conditions in a proactive manner to the extent necessary in order to ensure price stability and to mitigate inflation risks.
- On 9 June 2021 Viktor Orbán Prime Minister announced that their actual personal income tax payments (up to the tax burden of the average wage) will be refunded to families raising kids in early-2022 provided that the 2021 GDP growth surpasses 5.5%.
- According to Government Decree No. 317/2021. (VI. 9.) released on 9 June 2021 the payment moratorium was extended with unchanged conditions until 30 September 2021.
- On its 22 June 2021 meeting the Monetary Council embarked on a rate hike cycle: the base rate was increased by 30 bps to 0.9%. Also, effective from 24 June 2021 the National Bank of Hungary raised the one-week deposit rate to the level of the base rate.
- The Monetary Council has started to transform the use of instruments having an effect at longer maturities. Accordingly, with the exhaustion of the HUF 3,000 billion available amount, the Funding for Growth Go! programme will be phased out. However, the central bank continues to consider the government securities purchase programme to be crucial in its set of monetary policy instruments. The central bank will continue to use the programme by maintaining a lasting presence in the market, taking a flexible approach to changing the quantity and structure of weekly securities purchases, to the extent and for the time necessary.
- On 2 July 2021 the National Bank of Hungary recommended in its circular that financial institutions should abstain from charging prepayment fees in the case of full or partial prepayment of deferred interest and fee accumulated during the term of the moratorium. The central bank also recommended free of charge loan contract modification if borrowers voluntarily undertake higher monthy instalments in order to shorten the remaining maturity.
- On 23 July 2021 the European Central Bank announced that restrictions concerning dividend payments won’t be prolonged beyond the previously effective deadline of 30 September 2021.
- A Government Decree was published on 23 July 2021 facilitating the VAT refund in the case of newly built houses in brownfield sites.
- On 27 July 2021 the National Bank of Hungary raised the base rate by 30 bps to 1.2%, then on 29 July the one-week deposit rate was hiked to the same level, by the same magnitude.
- On 30 July 2021 the results of the 2021 EU-wide stress test conducted by the European Banking Authority were revealed. The fully loaded consolidated Common Equity Tier 1 (CET1) ratio of OTP Bank Plc. would change to 16.3% under the baseline scenario and to 11.2% under the adverse scenario in 2023, compared to 14.2% as at the end of 2020.
- On 24 August 2021 the National Bank of Hungary raised the base rate by 30 bps to 1.5%. Additionally, the central bank decided to begin gradually withdrawing the government securities purchase programme while considering aspects of maintaining market stability. Also, the central bank increased the available amount under the Bond Funding for Growth scheme by HUF 400 billion to HUF 1,550 billion.

NOTE 4: COVID-19 [continued]

- Pursuant to Government Decree 536/2021. (IX. 15.) published on 15 September, the Government decided to extend the debt repayment moratorium with the following conditions:
    - The blanket moratorium was extended by an additional month, until the end of October, in an unchanged form.
    - From the beginning of November 2021 until 30 June 2022 only the eligible borrowers can participate in the moratorium provided that they submitted a request to their banks about their intention to stay. So, the extension beyond October is not automatic: borrowers had to submit a notification to their bank (opt-in). Eligible retail borrowers include private individuals whose income fell compared to the previous period, unemployed people, fostered workers, families raising children below the age of 25 or expecting a baby, and pensioners (for details see the relevant decree). Eligible companies shall fulfil the following criteria: more than 25% decline in revenues in the 18 months period preceding the submission of the request to participate, and if the company has not concluded a new subsidized loan contract since 18 March 2020. During the term of the one-month extension until the end of October, eligible clients could submit the necessary documents to their banks in order to stay in the scheme until June 2022, so this one-month lengthening could be regarded as technical.
- According to Government Decree 537/2021. (IX. 15.) published on 15 September, credit institutions shall re-calculate the interest deferred during the period spent in the moratorium in the case of overdraft loans and credit card exposures. The base for the re-calculation shall be the NBH's statistical data for the average annualized cash loan interest rate published for February 2020. The difference between the deferred interest booked according to the original contract and the re-calculated amount shall be refunded to the borrowers by way of crediting the borrowers' account with the due amount.
- On 21 September 2021 the National Bank of Hungary hiked the base rate by 15 bps to 1.65%. Furthermore, the NBH continued to gradually withdraw the government securities purchase programme.
- On 4 October 2021 the National Bank of Hungary launched the FGS Green Home Programme as part of its green monetary policy toolkit strategy.
- On 19 October 2021 the National Bank of Hungary increased the base rate by 15 bps to 1.8%.
- On 16 November 2021 the Monetary Council of the NBH hiked the base rate by 30 bps to 2.1%. The Deputy Governor of NBH stressed after the Monetary Council meeting that the NBH is ready to set the rate of the 1-week central bank deposit above the level of the base rate already from 18 November. Accordingly, on 18 November the NBH raised the rate of the 1-week deposit facility to 2.5%, and the central bank accepted all offers at the tender. Consequently, the 1-week deposit has become the effective rate for the banking sector determining the marginal asset yields.
- On its weekly one-week deposit tender on 25 November 2021 the NBH offered an interest rate of 2.9%.
- On 30 November 2021 the NBH's Monetary Council widened the interest rate corridor and also decided to make it asymmetric. Accordingly, the lower bound of the corridor was raised by 45 bps and the upper one by 105 bps.
- On 2 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.1%.
- On 9 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.3%.
- On 14 December 2021 the NBH's Monetary Council raised the base rate by 30 bps to 2.4% and made a decision to phase out both the Bond Funding for Growth programme and the government bond purchase programme.
- On 16 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 30 bps to 3.6%.
- Mr. Viktor Orbán Prime Minister announced on 22 December 2021 that the government will introduce an interest rate cap for certain retail mortgage loans (for example whose pricing is linked to a reference rate, but the legislation does not apply to those with longer fixation periods) for the period between 1 January and 30 June 2022. Accordingly, the affected mortgages' reference rate cannot be higher than the relevant reference rate as at 27 October 2021. Furthermore, banks had to inform their borrowers about the interest rate risk and offer amendments to the contract until 31 January 2022. Details were laid down by Government Decree 782/2021 (XII. 24.) and Decree 1/2022 (I. 3.) by the Prime Minister's Office.
- On 23 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.8%.

NOTE 4: COVID-19 [continued]

- In its release published on 27 December 2021 the NBH said that from 1 January 2022 Hungarian credit institutions can pay dividends and buy back shares with shareholder remuneration purposes again. Thus, the NBH did not extend these restrictions in line with the similar step taken by the ECB at the end of September.
- On 30 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 4.0%.
- Against the initially planned 2 pps social security contribution cut effective from July 2022, the government reduced employers' taxes by 4 pps already from 1 January 2022 (the 1.5% vocational training contribution was abolished and the social contribution taxes were cut by 2.5 pps).
- On 25 January 2022 the NBH hiked the base rate by 50 bps to 2.9%.
- On 27 January 2022 the NBH hiked the rate of the 1-week central bank deposit by 30 bps to 4.3%.
- On 15 February 2022 the CSO revealed the final GDP growth figures: accordingly, in 4Q 2021 the quarterly expansion of 2.1% was stronger than expected, lifting the annual growth rate to 7.1% in 2021 as a whole (seasonally and working day adjusted). Mr. Mihály Varga (Minister of Finance) announced that the government expects 5.9% growth for 2022.

Interest rate cap

For the period between 1 January and 30 June 2022 the government introduced an interest rate cap for variable-rate retail mortgage loans, and with its decision announced on 18 February, for housing purposes financial leasing contracts, too. Accordingly, the affected exposures' reference rate cannot be higher than the relevant reference rate as at 27 October 2021.

The modification loss related to the interest rate cap for variable rate mortgage loans announced on 22 December 2021 was recognized in the Mortgage Bank's 2021 financial accounts. The extension of the interest rate cap to housing purposes financial leasing contracts does not have a significant negative effect.

Moratorium one-off effect

In Hungary the first phase of the moratorium on loan payments was effective from 19 March 2020 to 31 December 2020. At the end of 2020 the moratorium was extended in unchanged form for the period between 1 January 2021 and 30 June 2021. Furthermore, according to Government Decree No. 317/2021. (VI. 9.) released on 9 June 2021 the payment moratorium was extended with unchanged conditions until 30 September 2021. Pursuant to Government Decree 536/2021. (IX. 15.) published on 15 September, the Government decided to extend the debt repayment moratorium: the blanket moratorium was extended by an additional month, until the end of October, in an unchanged form. Furthermore, from the beginning of November 2021 until 30 June 2022 only the eligible borrowers can participate in the moratorium provided that they submitted a request to their banks about their intention to stay.

During the term of the moratorium OTP Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues.

Loan volumes under the Hungarian payment holiday followed a declining trend till the end of October 2021, then from November the participation dropped materially due to the changes to the structure. At the end of 2021 the total household and corporate exposures remaining under the moratorium comprised HUF 119 billion at OTP Mortgage, which made up 7.6% of the total gross loan portfolio of those two entities.

Participation in COVID moratorium from total loan portfolio at 31 December 2021

	Current volume in moratorium (in HUF million)	Current participation ratio
OTP Mortgage Bank	119,301	7,6%

Participation in COVID moratorium as at 31 December 2020

	Current volume in moratorium (in HUF million)	Current participation ratio
OTP Mortgage Bank	677,341	50.4%

NOTE 4: COVID-19 (in HUF mn) [continued]

Financial assets modified during the year ended 31 December 2021 related to covid moratorium

Modification due to prolongation of deadline of covid moratoria till 30 September

Gross carrying amount before modification	491,821
Modification loss due to covid moratoria	(1,446)
Gross carrying amount after modification	**490,375**
Loss allowance before modification	(10,554)
Net amortised cost after modification	**479,821**

Modification due to prolongation of deadline of covid moratoria till 31 October

Gross carrying amount before modification	485,488
Modification loss due to covid moratoria	(679)
Gross carrying amount after modification	**484,809**
Loss allowance before modification	(10,679)
Net amortised cost after modification	**474,130**

Modification due to prolongation of deadline of covid moratoria till 30 June 2022

Participation in COVID moratorium from loans at amortised cost at 31 December 2021.

Gross carrying amount before modification	84,986
Modification loss due to covid moratoria	(1,204)
Gross carrying amount after modification	**83,782**
Loss allowance before modification	(7,264)
Net amortised cost after modification	**76,518**

On 24 December 2021 new regulation was issued on fixing of retail loan product's interest, under that interest rates of mortgage loans with variable interest shall be fixed at reference rates of 27 October 2021, predictably till 30 June 2022.

Gross carrying amount before modification	254,215
Modification loss due to covid moratoria	(2,694)
Gross carrying amount after modification	**251,521**
Loss allowance before modification	(7,692)
Net amortised cost after modification	**243,829**

Financial assets modified during the year ended 31 December 2020 related to covid moratorium

Gross carrying amount before modification	431,039
Loss allowance before modification	(13,387)
Net amortised cost before modification	**417,652**
Modification loss due to covid moratoria	(9,584)
Net amortised cost after modification	**408,068**

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

Amounts due from banks and balances with the NBH:

	2021	2020
Within one year		
in HUF	15,649	6,250
in foreign currency	31	63
Total	**15,680**	**6,313**
Loss allowance	(33)	-
Subtotal	**15,647**	**6,313**
From this: amounts due from OTP Bank	15,647	4,303
Compulsory reserve	28	11
Rate of the compulsory reserve	1%	1%

The Group 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,

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 Group 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 Group 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 (in HUF million)

	2021	2020
Within one year		
in HUF	9,523	9,735
Over one year		
in HUF	142,794	116,446
Subtotal	**152,317**	**126,181**
Impairment	(342)	(400)
Total	**151,975**	**125,781**
From this: amounts due from OTP Bank	447	1,306

Interest conditions on placements with other banks	2021	2020
Within one year		
in HUF	2.72%-3.65%	0.36%-0.75%
Over one year		
in foreign currency	4.35%-4.62%	1.45%-1.71%

Average interest of placements with other banks	2021	2020
in HUF	4.26%	1.41%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2021	2020
Hungarian government bonds	16,037	18,273
Total	**16,037**	**18,273**

The whole portfolio was denominated in HUF as at 31 December 2021.

Interest conditions and the remaining maturity of securities at fair value through other comprehensive income can be analysed as follows:

	2021	2020
Over one year, fixed interest	15,599	17,832
Interest conditions of securities at fair value through other comprehensive income	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2021:

	2021	
	Amortized cost	**Net fair value**
Hungarian government bonds	16,497	15,599
Total	**16,497**	**15,599**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2020:

	2020	
	Amortized cost	**Net fair value**
Hungarian government bonds	16,905	17,832
Total	**16,905**	**17,832**

NOTE 8: LOANS (in HUF million)

Loans measured at fair value through profit or loss

	2021	2020
Within one year	29,449	23,039
Over one year	376,361	295,005
Loans measured at fair value through profit or loss total	**405,810**	**318,044**

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

	2021	2020
Within one year	99,370	91,291
Over one year	1,054,848	929,803
Loans gross total	**1,154,218**	**1,022,001**
Provision for impairment on loan losses	(19,451)	(20,262)
Total	**1,134,767**	**1,000,832**

An analysis of the loan portfolio by currency (%):

	2021	2020
In HUF	99.99%	99.98%
In foreign currency	0.01%	0.02%
Total	**100.00%**	**100.00%**

Interest rates of the loan portfolio mandatorily measured at fair value through profit or loss are as follows (%):

	2021	2020
Loans denominated in HUF	1.21% - 10.83%	0.77%-12.83%
Average interest on loans denominated in HUF	4.34%	4.70%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	2021	2020
Loans denominated in HUF, with a maturity within one year	0.78%- 17.68%	0.79%- 21.47%
Loans denominated in HUF, with a maturity over one year	0.78%- 17.68%	0.79%- 21.47%
Loans denominated in foreign currency	1.74%-6.87%	3.82%-8.65%
Average interest on loans denominated in HUF	5.51%	5.17%
Average interest on loans denominated in foreign currency	4.66%	4.93%

NOTE 8: LOANS (in HUF million) [continued]

An analysis of the change in the loss allowance on loans at amortised cost is as follows:

	2021	2020
Balance as at 1 January	**20,262**	**4,504**
Provision for the period	24,980	23,159
Release of provision	(25,329)	(7,252)
Other movement	(20)	(45)
Partial write-off	(442)	(104)
Closing balance	**19,451**	**20,262**

A significant part of the loans above are mortgage loans for purchasing real estate or home equity loans. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank’s register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	2021	2020
Loss allowance on placements with other banks	(25)	261
Loss allowance on loans at amortised cost	(887)	16,000
Total	**(912)**	**16,261**

The Bank sells non-performing non-subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd. In addition, the Bank sells non-performing subsidised loans without recourse at estimated fair value to OTP Bank Plc.

NOTE 9: SECURITIES AT AMORTISED COST (in HUF million)

	2021	2020
Government bonds	175,454	108,628
Subtotal	**175,454**	**108,628**
Provision for impairment	(329)	(173)
Total	**175,125**	**108,455**

An analysis of change in the loss allowance on securities at amortised cost:

	2021	2020
Balance as at 1 January	**173**	**-**
Loss allowance	235	366
Release of loss allowance	(79)	(193)
Closing balance	**329**	**173**

The distribution of the securities at amortised cost by currency (%):

	2021	2020
Interest rates on securities at amortised cost	1% - 5%	1% - 3%
Average interest on securities at amortised cost denominated in HUF	2.50%	1.83%

Interest conditions and the remaining maturities of securities at amortised cost can be analysed as follows:

	2021	2020
Within one year		
fixed interest	27,083	-
Over one year:		
fixed interest	146,872	107,982
Total	**173,955**	**107,982**

NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For the year ended 31 December 2021

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January 2021	**1,960**	**14**	**280**	**-**	**695**	**2,949**
Additions	116	1	18	8	-	143
Disposals	(186)	(9)	(38)	(8)	(77)	(318)
Balance as at 31 December 2021	**1,890**	**6**	**260**	**-**	**618**	**2,774**
Accumulated Depreciation and Amortization						
Balance as at 1 January 2021	**1,768**	**10**	**218**	**-**	**233**	**2,229**
Charge for the year	117	1	22	-	129	269
Disposals	(186)	(9)	(28)	-	(82)	(305)
Balance as at 31 December 2021	**1,699**	**2**	**212**	**-**	**280**	**2,193**
Net book value						
Balance as at 1 January 2021	**192**	**4**	**62**	**-**	**462**	**720**
Balance as at 31 December 2021	**191**	**4**	**48**	**-**	**338**	**581**

For the year ended 31 December 2020

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January 2020	**1,832**	**16**	**269**	**2**	**505**	**2,624**
Additions	273	1	21	19	190	504
Disposals	(145)	(3)	(10)	(21)	-	(179)
Balance as at 31 December 2020	**1,960**	**14**	**280**	**-**	**695**	**2,949**
Accumulated Depreciation and Amortization						
Balance as at 1 January 2020	**1,648**	**2**	**195**	**-**	**100**	**1,945**
Charge for the year	120	8	30	-	133	291
Disposals	-	-	(7)	-	-	(7)
Balance as at 31 December 2020	**1,768**	**10**	**218**	**-**	**233**	**2,229**
Net book value						
Balance as at 1 January 2020	**184**	**14**	**74**	**2**	**405**	**679**
Balance as at 31 December 2020	**192**	**4**	**62**	**-**	**462**	**720**

NOTE 11: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)

	2021	2020
Interest rate swaps designated as fair value hedge	-	309
Interest rate swaps designated as cash flow hedge	5.397	133
Total	**5.397**	**442**

NOTE 12: OTHER ASSETS (in HUF million)

	2021	2020
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	772	667
Prepayments and accrued income	97	70
Trade receivables	614	559
Receivables from suppliers	47	69
Other	152	324
Loss allowance	(179)	(203)
Other financial assets total	**1,503**	**1,486**
Other non-financial assets		
Prepayments and accrued income	41	16
Receivable related to Hungarian Government subsidies	1,348	1,000
Current income tax receivable	1,622	3,056
Inventories	3	3
Technical accounts	511	512
Provision for impairment on other assets	(6)	(5)
Other non-financial assets total	**3,519**	**4,582**
Total	**5,022**	**6,086**

An analysis of the movement in the loss allowance on other financial assets is as follows:

	2021	2020
Balance as at 1 January	**203**	**151**
Charge for the period	114	112
Release of loss allowance	(138)	(60)
Balance as at 31 December	**179**	**203**

An analysis of the movement in the loss allowance on other non-financial assets is as follows:

	2021	2020
Balance as at 1 January	**5**	**1**
Charge for the period	8	7
Release of provision	(7)	(3)
Balance as at 31 December	**6**	**5**

NOTE 13: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2021	2020
Within one year		
In HUF	508,333	545,506
In EUR	11	11
In JPY	198	289
In CHF	7	10
Total in foreign currency	216	310
	508,549	**545,816**
Over one year		
in HUF	514,223	147,090
	1,022,772	**692,906**
Total	**1,022,772**	**692,906**
From this: amounts due to OTP Bank	894,390	585,732

Interest conditions on amounts due to OTP Bank and other banks

	2021	2020
Within one year		
In HUF	3.2%-3.79%	0%-0.75%
In foreign currency	(0.58)% -0.36%	(0.5)% -0.05%
Over one year		
In HUF	0%-4.51%	0.6%-1.01%

NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2021	**2020**
Within one year:		
In HUF	8,805	130,430
Over one year		
In HUF	763,206	677,083
Total	**772,011**	**807,513**
Issued mortgage bonds during the period (nominal value)	95,020	310,100
Mortgage bonds became due or repurchased during the period (nominal value)	122,100	70,000

Interest conditions on issued securities

	2021	**2020**
In HUF	1.25%-11.00%	1.05%-11.00%

A reconciliation of the face value and the amortized cost is as follows:

	2021	**2020**
Nominal value of the issued securities	771,120	798,200
Unamortized premiums	(6,161)	246
Fair value hedge adjustment	(1,753)	384
Amortized cost	**763,206**	**798,830**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values, which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, the property register data and the normal and additional collateral in the coverage register.

There was a maturing mortgage bond in amount of HUF 122.1 billion. Mortgage bonds were issued in amount of HUF 95.02 billion in 2021.

Issued securities denominated in HUF as at 31 December 2021 (in HUF million)

Name	**Date of issue**	**Maturity**	**Nominal value in HUF million**	**Amortised cost in HUF million**	**Interest condition in % p.a.**		**Hedged**
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75%	fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35%	variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05%	variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50%	fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00%	fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50%	fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25%	fix	not hedged
OJB2031/I	2021/08/18	2031/10/22	95,020	88,429	2.50%	fix	not hedged
Total issued securities			**771,120**	**764,959**			

NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in HUF as at 31 December 2021 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2021/I	2017/02/15	2021/10/27	122,100	122,215	2.00%	fix	not hedged
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75%	fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35%	variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05%	variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50%	fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00%	fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50%	fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25%	fix	not hedged
Total issued securities			**798,200**	**807,513**			

NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2021	2020
Interest rate swap designated as fair value hedge	1,804	-
Interest rate swap designated as cash flow hedge	-	780
	1,804	**780**

NOTE 16: OTHER LIABILITIES AND PROVISIONS (in HUF million)

	2021	2020 Reclassified
Other financial liabilities		
Accounts payable	3,827	1,931
Accrued expenses	1,000	1,055
Other	3,012	2,685
Other financial liabilities total	**7,839**	**5,671**
Other non-financial liabilities		
Current income tax payable	462	403
Social contribution	83	72
Accrued expenses	88	157
Provision and settlement accounts	-	7
Other	71	45
Other non-financial liabilities total	**704**	**684**
Other liabilities total	**8,543**	**6,355**

NOTE 16: OTHER LIABILITIES AND PROVISIONS (in HUF million)

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	2021	2020
Provision for losses on other off-balance sheet commitments and contingent liabilities	779	732
Provisions in accordance with IFRS 9	**779**	**732**
Provision for litigation	90	112
Provisions in accordance with IAS 37	**90**	**112**
Total	**869**	**844**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IFRS 9 can be summarized as follows:

	2021	2020
Opening balance	732	518
Provision for the period	2,643	2,563
Release of provision for the period	(2,596)	(1,898)
Closing balance	**779**	**732**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IAS 37 can be summarized as follows:

	2021	2020
Opening balance	112	282
Provision for the period	3,799	12,508
Release of provision	(3,821)	(12,678)
Closing balance	**90**	**112**

NOTE 17: SHARE CAPITAL (in HUF million)

All 37,000 shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2021	2020
Share capital (in HUF million)	37,000	37,000

The nominal value of the shares is HUF 100.000 per share. 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 18: RETAINED EARNINGS AND RESERVES (in HUF million)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") effective from annual periods beginning on 1 January 2017 financial statements of the Group are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

In 2021, the Group did not pay dividend based on the earlier NBH warnings issued due to covid moratoria. In 2022 dividend of HUF 18 billion are expected to be proposed by the Management.

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 Group.

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 a 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 Bank that are not distributed to shareholders as dividends.

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.

Balance as at 1 January, 2021	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**38,878**	**-**	**-**	**75,878**
Other comprehensive income	-	-	(75)	75	-	-
Net profit for the year	-	-	6,585	-	(6,585)	-
General reserve	-	18,109	(18,109)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**18,109**	**27,279**	**75**	**(6,585)**	**75,878**

NOTE 18: **RETAINED EARNINGS AND RESERVES (in HUF million) [continued]**

Balance as at 31 December, 2021	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**66,740**	**-**	**-**	**103,740**
Other comprehensive income	-	-	(4,991)	4,991	-	-
Net loss for the year	-	-	(22,838)	-	22,838	-
General reserve	-	20,464	(20,464)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**20,464**	**18,447**	**4,991**	**22,838**	**103,740**

	2021	2020
Retained earnings and reserves	66,264	38,402
Net profit / (loss) for the year	22,838	(6,585)
Untied retained earnings	**89,102**	**31,817**

	2021	2020
Retained earnings	18,831	27,771
Capital reserve	476	476
Other reserves	21,424	19,069
Fair value of financial instruments measured at fair value through other comprehensive income	(787)	874
Share-based payment reserve	105	72
Fair value of derivative financial instruments designated as cash-flow hedge	3,853	(2,799)
Net profit / (loss) for the year	22,838	(6,585)
Retained earnings and other reserves	**66,740**	**38,878**

Fair value adjustment of securities at fair value through other comprehensive income:

	2021	2020
Balance as at 1 January	844	1,072
Change of fair value correction	(1,825)	(251)
Deferred tax related to change of fair value correction	163	23
Closing balance	**(818)**	**844**

Expected credit loss on securities at fair value through other comprehensive income:

	2021	2020
Balance as at 1 January	29	18
Increase of loss allowance	1	11
Closing balance	**30**	**29**

NOTE 19: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2021 6 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 21 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships
(vi) loans granted under the Green Home Program of the MNB-funded Growth Loan Program from 2021.

Relevant elements of the currently available interest subsidised loans.

Dedicated beneficiaries can benefit from the Government Decree, the purpose of the loan:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
    - purchasing or building of new property
    - purchasing or modernisation or enlargement of used property

- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million. Interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Support for a loan applied for by families with several children lasts until the end of the term, but up to a maximum of 25 years, except for the renovation loan, which is supported for 10 years. The State will provide support for the payment of interest on a loan taken out for the investment of real estate in a preferred small town during the first twenty-five years of the term.

The MNB NHP ZOP loan provided for the implementation of environmentally friendly properties can only be used for the construction or purchase of an energy-efficient new home, for which the MNB provides a favorable interest rate until the end of the loan, but for a maximum of 25 years. In the case of families with several children, the state provides additional interest subsidies, so that the loan becomes interest-free for them during the subsidy period.

Demand for subsidized loans increased during the year. Of these, OTP Mortgage Bank disbursed a total of HUF 127,2 billion in 2021, which is 36.6% more than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 456,2 billion, 16.6% more than a year earlier (nominal gross data).

NOTE 20: INTEREST INCOME AND EXPENSES (in HUF million)

	2021	2020
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	53,369	46,447
FVOCI securities	415	426
Placements with other banks	2,959	1,881
Amounts due from banks and balances with National Bank of Hungary	142	61
Securities at amortised cost	2,087	763
Interest subsidy on housing loans financed by mortgage bonds	5,753	7,109
Subtotal	**64,725**	**56,687**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	15.711	13,512
Swap and forward deals related to Placements with other banks	(509)	(421)
Subtotal	**15,202**	**13,091**
		-
Interest income total	**79,927**	**69,778**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	15,549	7,674
Leasing liabilities	-	9
Loans	6	-
Liabilities from issued securities	28,242	27,057
Financial liabilities	19	-
Subtotal	**43,816**	**34,740**

NOTE 21: RISK COST (in HUF million)

		2021	2020
Loss allowance of loans at amortised cost			
	Loss allowance	(24,539)	(23,045)
	Release of loss allowance	25,426	7,245
Total		**887**	**(15,800)**
Loss allowance of placements with other banks			
	Loss allowance	(549)	(354)
	Release of loss allowance	574	93
Total		**25**	**(261)**
Loss allowance of FVOCI securities			
	Loss allowance	(15)	(25)
	Release of loss allowance	14	14
Total		**(1)**	**(11)**
Loss allowance of securities at amortised cost			
	Loss allowance	(235)	(366)
	Release of loss allowance	79	193
Total		**(156)**	**(173)**
Provision on loan commitments and financial guarantees			
	Provision for the period	(2,643)	(2,563)
	Release of provision	2,596	2,349
Total		**(47)**	**(214)**
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss			
	Loss allowance	(986)	(2,851)
	Release of loss allowance	-	-
Total		**(986)**	**(2,851)**
Net (release of loss allowance) / loss allowance total		**(278)**	**(19,310)**

NOTE 22: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2021	2020
Fees and commissions relating to lending	2,385	1,506
Other	4,015	2,435
Total	**6,400**	**3,941**
Receivables recognized under other assets	97	70

Expense from fees and commissions

	2021	2020
Fees and commissions relating to issued securities	332	293
Fees and commissions relating to lending	4,348	5,365
Others	5,284	2,740
Total	**9,964**	**8,398**
Net loss from fees and commissions	**(3,564)**	**(4,457)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

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
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.	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, special procedure fee, account rent fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly 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. Fees for ad hoc services are charged when the transaction takes places.

NOTE 23: GAINS AND LOSSES (in HUF mn)

	2021	2020
Losses arising from derecognition of financial assets measured at amortised cost		
Gain from loans	-	192
Loss from loans	(18)	(381)
Other	(39)	(16)
	(57)	**(205)**

	2021	2020
Foreign exchange losses		
Loss from foreign exchange	(4)	2
Margin income	2	-
Margin losses	(1)	(11)
Total	**(3)**	**(9)**

	2021	2020
Losses on financial instruments at fair value through profit or loss		
Gains on loans mandatorily measured at fair value through profit or loss	24,523	1,442
Losses on loans mandatorily measured at fair value through profit or loss	(19,582)	(2,363)
Total	**4,941**	**(921)**
Total gains and losses from operating income (without other operating income)	**4,938**	**(930)**

NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2021	2020 Reclassified
Net other operating income		
Other direct costs of mortgage bond raising	-	(774)
Other	(7)	235
Total	**(7)**	**(539)**
Other operating expense		
Provisions for future liabilities	44	(93)
Non- repayable assets contributed	(151)	2
Other	(5)	27
Total	**(112)**	**(64)**
Personnel expenses		
Wages	(1,025)	(994)
Taxes related to personnel expenses	(181)	(191)
Other personnel expenses	(126)	(141)
Total	**(1,332)**	**(1,326)**
Depreciation and amortization	**(267)**	**(293)**
Taxes, other than income tax:		
Bank tax	*(2,236)*	*(2,161)*
Other taxes	*(142)*	*(1,101)*
Total taxes, other than income tax	**(2,378)**	**(3,262)**
Services	(481)	(832)
Professional, supervisory fees	(1,282)	(715)
Rental fees	(102)	(162)
Material type expenses	(27)	(25)
Administration expenses	-	(27)
Advertising	(104)	(87)
Other	(11)	-
Total	**(4,385)**	**(5,110)**

The table below contains the detailing of the fees for audit services:

	2021	2020
Annual audit	47	61
Total	**47**	**61**

NOTE 25: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2021	2020
Key executives (Managing Director and Deputies)	116	68
Total	**116**	**68**

NOTE 26: INCOME TAX (in HUF million)

The Group is presently liable for income tax at a rate of 9% of taxable income, local business tax at a rate of 2% of taxable revenue, innovation contribute at a rate of 0.3% of taxable revenue.

A reconciliation of the total income tax charge for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020 Reclassified
Current tax expense	2,231	1,085
Deferred tax (benefit)/expense	(56)	(51)
Total income tax expense/(benefit)	**2,175**	**1,034**

A reconciliation of the deferred tax liability as at 31 December 2021 and 2020 is as follows:

	2021	2020
Balance as at 1 January	**(4)**	**(77)**
Recognized in other comprehensive income as tax benefit/(expense)	164	22
Deferred tax benefit/(expense)	56	51
Balance as at 31 December	**216**	**(4)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2021 and 2020 is as follows:

	2021	2020
Fair value adjustment for at fair value through other comprehensive income financial assets	81	(83)
Effect of using effective interest rate method	138	82
Provision for untaken leave	1	-
One-off effect arising on transition to IFRS	(4)	(3)
Difference in depreciation and amortization	**216**	**(4)**
Deferred tax liabilities		
Net deferred tax liabilities	**216**	**(4)**

A reconciliation of the effective tax rate as at 31 December 2021 and 2020 is as follows:

	2021	2020
Profit before income tax	25,013	(6,636)
Consolidation adjustment	708	
Income tax at statutory tax rate	2,315	-
Income tax adjustments due to permanent differences are as follows:		
Use of tax	(1,134)	-
Other	(115)	-
Income tax	**1,066**	-
Effective tax-rate	4.14%	*0 %*

NOTE 27: LEASE (in HUF million)

The Bank as a lessee:

Amounts recognised at initial application	**1 January 2019**
Lease liability	425
Prepaid or accrued lease payments as at 31 December 2018	-
Right-of-use asset	425
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: ~2.9375 %.

Amounts recognised in profit and loss	**2021**	**2020**
Interest expense on lease liabilities	7	8
Expense relating to short-term leases	102	115
Rental fees for software	-	47

Leasing liabilities by maturities:

	2021	**2020**
Within one year	119	148
Over one year	244	344
Total	**363**	**492**

An analysis of movement in the carrying amount of right-of-use assets by category is as follows:

Gross carrying amount	**Right of uses of real estate**	
	2021	**2020**
Balance as at 1 January	696	504
Additions due to new contracts	-	188
Derecognition due to expired contracts	(82)	-
Change due to revaluation and modification	4	4
Closing balance	**618**	**696**
Depreciation		
Balance as at 1 January	234	99
Depreciation charge	128	135
Derecognition due to expired contracts	(82)	**-**
Closing balance	**280**	**234**
Net carrying amount	**338**	**462**

NOTE 28: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Group has no preference shares and no options or other rights related to shares.

	2021	**2020**
Net profit for the year (in HUF million)	22,838	(6,585)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370,000	370,000
EPS (in HUF) basic and diluted	**61,724**	**(17,797)**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million)

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[1]:

29.1. 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 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.

29.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

The following non-retail, micro- and small enterprise exposures fall under the individual assessment:

- 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 take into account 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 the possible difference between the realised cash flows and 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.

[1] The management of liquidity risk related to financial instruments are shown in Note 28.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

On a collective valuation 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 exposures which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, and are 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 Group'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 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2021:

		Gross carrying amount					Loss allowance				
	Carrying amount	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	15,647	15,680	-	-	-	15,680	33	-	-	-	33
Placements with other banks, net of allowance for placement losses	151,975	152,317	-	-	-	152,317	342	-	-	-	342
Mortgage loans	1,131,989	861,631	251,301	37,808	497	1,151,237	2,279	7,525	9,398	46	19,248
Corporate loans	2,778	1,259	1,499	223	-	2,981	5	134	64	-	203
Loans at amortized cost	1,134,767	862,890	252,800	38,031	497	1,154,218	2,284	7,659	9,462	46	19,451
FVOCI securities[1]	16,037	16,037	-	-	-	16,037	30	-	-	-	30
Securities at amortised cost	175,125	175,454	-	-	-	175,454	329	-	-	-	329
Other financial assets	1,503	1,624	50	8	-	1,682	1	175	3	-	179
Other non-financial assets	3,519	3,525	-	-	-	3,525	6	-	-	-	6
Other assets	5,022	5,149	50	8	-	5,207	7	175	3	-	185
Financial assets total	**1,498,573**	**1,227,527**	**252,850**	**38,039**	**497**	**1,518,913**	**3,025**	**7,834**	**9,465**	**46**	**20,370**
Off balance sheet items	61,914	56,939	5,637	117	-	62,693	417	335	27	-	779

[1] FVOCI securities are recognised and measured at fair value in the Consolidated Statement of Financial Position (see in the Note 7.). Loss allowance on FVOCI securities is recognised in the Consolidated Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2020:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	6,313	6,313	-	-	-	6,313	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	125,781	126,181	-	-	-	126,181	400	-	-	-	400
Mortgage loans	997,451	781,191	218,231	17,744	476	1,017,642	2,289	14,075	3,761	66	20,191
Corporate loans	3,381	3,133	277	42	-	3,452	15	45	11	-	71
Loans at amortized cost	1,000,832	784,324	218,508	17,786	476	1,021,094	2,304	14,120	3,772	66	20,262
FVOCI securities[1]	18,273	18,273	-	-	-	18,273	29	-	-	-	29
Securities at amortised cost	108,455	108,628	-	-	-	108,628	173	-	-	-	173
Other financial assets	1,486	1,655	30	4	-	1,689	-	202	1	-	203
Other non-financial assets	4,582	4,587	-	-	-	4,587	5	-	-	-	5
Other assets	6,068	6,242	30	4	-	6,276	5	202	1	-	208
Financial assets total	**1,265,722**	**1,049,961**	**218 538**	**17 790**	**476**	**1,286,765**	**2,911**	**14,322**	**3,773**	**66**	**21,072**
Off balance sheet items	40,052	35,108	5,405	271	-	40,784	162	523	47	-	732

[1] FVOCI securities are recognised and measured at fair value in the Consolidated Statement of Financial Position (see in the Note 7.). Loss allowance on FVOCI securities is recognised in the Consolidated Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Loans at amortised cost

2021.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2021 IFRS 9	**2,303**	**14,121**	**3,772**	**66**	**20,262**
Transfer to Stage 1	5,158	(5,119)	(39)	-	-
Transfer to Stage 2	(455)	794	(339)	-	-
Transfer to Stage 3	(42)	(850)	892	-	-
Net remeasurement of loss allowance	(5,822)	(679)	5,400	(17)	(1,118)
New financial assets originated or purchased	1,323	541	59	-	1,923
Financial assets derecognised (other than write-offs)	(181)	(1,149)	(283)	(3)	(1,616)
Unwind of discount	(7)	(3)	-	-	(10)
Write-offs	7	3	-	-	10
Loss allowance as at 31 December 2021	**2,284**	**7,659**	**9,462**	**46**	**19,451**

Loans at amortised cost

2020.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2020 IFRS 9	**2,145**	**862**	**1,478**	**18**	**4,503**
Transfer to Stage 1	8	(68)	(18)	-	(78)
Transfer to Stage 2	(529)	11,783	(74)	-	11,180
Transfer to Stage 3	(8)	(102)	965	-	855
Net remeasurement of loss allowance	269	1,274	1,495	50	3,088
New financial assets originated or purchased	671	440	110	-	1,221
Financial assets derecognised (other than write-offs)	(244)	(68)	(184)	(2)	(498)
Unwind of discount	(9)	-	103	1	95
Write-offs	-	-	(103)	(1)	(104)
Loss allowance as at 31 December 2020	**2,303**	**14,121**	**3,772**	**66**	**20,262**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Placements with other banks, net of allowance for placement losses

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	400	400
Financial assets derecognised (other than write-offs)	(56)	(56)
New financial assets originated or purchased	1	1
Net remeasurement of loss allowance	(3)	(3)
Loss allowance as at 31 December 2021	**342**	**342**

Placements with other banks, net of allowance for placement losses

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	**139**	**139**
Financial assets derecognised (other than write-offs)	400	400
Net remeasurement of loss allowance	(139)	(139)
Loss allowance as at 31 December 2020	**400**	**400**

FVOCI Securities

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	29	29
New financial assets originated or purchased	1	1
Loss allowance as at 31 December 202	**30**	**30**

FVOCI Securities

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	**18**	**18**
New financial assets originated or purchased	29	29
Financial assets derecognised (other than write-offs)	(18)	(18)
Loss allowance as at 31 December 2020	**29**	**29**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Securities at amortised cost

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	173	173
Financial assets derecognised (other than write-offs)	34	34
New financial assets originated or purchased	122	122
Loss allowance as at 31 December 2021	**329**	**329**

Securities at amortised cost

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	-	-
New financial assets originated or purchased	173	173
Loss allowance as at 31 December 2020	**173**	**173**

Off Balance sheet items

2021.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2021	**162**	**523**	**47**	**732**
Transfer from Stage 1 to Stage 2	401	(372)	(29)	-
Transfer from Stage 1 to Stage 3	(11)	24	(13)	-
Transfer from Stage 2 to Stage 1	-	(7)	7	-
Net remeasurement of loss allowance	(506)	(103)	5	(604)
New financial assets originated or purchased	385	286	11	682
Financial assets derecognised (other than write-offs)	(14)	(16)	(1)	(31)
Loss allowance as at 31 December 2021	**417**	**335**	**27**	**779**

Off Balance sheet items

2020.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2020	**248**	**210**	**60**	**518**
Transfer to Stage 1	1	(55)	(7)	(61)
Transfer to Stage 2	(20)	67	(16)	31
Transfer to Stage 3	(3)	(2)	19	14
Net remeasurement of loss allowance	(191)	(89)	(24)	(304)
New financial assets originated or purchased	141	395	24	560
Financial assets derecognised (other than write-offs)	(14)	(3)	(9)	(26)
Loss allowance as at 31 December 2020	**162**	**523**	**47**	**732**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Loan portfolio by internal ratings

	Gross carrying amount				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	746,421	152,521	-	98	899,040
Medium grade (5-7)	111,043	79,949	-	61	191,053
Low grade (8-9)	5,427	21,851	-	52	27,330
Non performing	-	-	38,032	286	38,318
Total	**862,891**	**254,321**	**38,032**	**497**	**1,155,741**

	Accumulated loss allowance				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	1,723	4,018	-	3	5,744
Medium grade (5-7)	527	2,556	-	3	3,086
Low grade (8-9)	35	1,085	-	1	1,121
Non performing	-	-	9,462	39	9,501
Total	**2,284**	**7,659**	**9,462**	**46**	**19,451**

Loan portfolio classification by economic activities

Gross loan at amortized cost and finance lease receivable portfolio by economic activities	**2021**	**2020**
Retail	1,152,611	1,018,473
Agriculture, forestry and fishing	3,106	3,500
Other services	24	28
Total gross loans and finance lease receivable	**1,155,741**	**1,022,001**

Loss allowance on loans at amortized cost and finance lease receivable by economic activities	**2021**	**2020**
Retail	(19,229)	(20,187)
Agriculture, forestry and fishing	(217)	(73)
Other services	(5)	(2)
Total loss allowance on loans and finance lease receivable	**(19,451)**	**(20,262)**

Collateral

The collateral value held by the Bank by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2021**	**2020**
Government guarantees	772,311	715,797
Deposit, securities	20,733	21,111
Mortgage	4,271,846	3,658,702
Total	**5,064,890**	**4,395,610**

The collateral value held by the Bank by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2021**	**2020**
Government guarantees	17,143	20,728
Deposit, securities	14,488	13,640
Mortgage	1,443,303	1,231,471
Total	**1,474,934**	**1,265,839**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio:

The collateral value of non-performing loans at amortized cost

2021	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	38,132	(9,436)	28,696	106,293
Corporate loans	248	(71)	177	991
Total	**38,380**	**(9,507)**	**28,873**	**107,284**

The collateral value of loans measured at fair value through profit or loss

2021	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	6,973	(1,669)	5,304	18,707
Corporate loans	-	-	-	-
Total	**6,973**	**(1,669)**	**5,304**	**18,707**

The collateral value of non-performing loans at amortized cost

2020	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	18,003	(3,805)	14,198	54,641
Corporate loans	42	(11)	31	375
Total	**18,045**	**(3,816)**	**14,229**	**55,016**

The collateral value of loans measured at fair value through profit or loss

2020	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	2,780	(465)	2,315	7,968
Corporate loans	-	-	-	-
Total	**2,780**	**(465)**	**2,315**	**7,968**

Restructured loans

	2021		**2020**	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	211,839	(5,992)	3,845	(459)
Corporate loans	562	(37)	-	-
SME loans	918	(97)	-	-
Total	**213,319**	**(6,126)**	**3,845**	**(459)**

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

The significant increase of the performing forborne loan volume is due to the forborne classification rules set by the MNB executive circulars of 21 January 2021 and 25 November 2021 for loans participating in phase 2 and phase 3 of the moratoria. The loan volume classified as performing forborne exclusively due to moratoria participation is HUF 290 billion. For the affected portfolios the earliest possible exit from the forborne status is 6 months after the exit from moratorium for retail and 2 years after the exit from moratorium for corporate exposures.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

At fair value through other comprehensive income securities as at 31 December 2021

	Baa2		Not rated		Total
Hungarian government bonds	16,037	100.00%	-	0.00%	16,037
Total	**16,037**	**100.00%**	**-**	**0.00%**	**16,037**

Securities at amortised cost as at 31 December 2021

	Baa2		Not rated		Total
Hungarian government bonds	175,125	100.00%	-	0.00%	175,125
Total	**175,125**	**100.00%**	**-**	**0.00%**	**175,125**

29.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Group takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management function.

29.2.1. Interest rate sensitivity analysis[1]

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 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 that is lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation were prepared by assuming two scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually by 100 bps over the next year (scenario 1)
2. HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one year period beginning with January 1, 2022 would be increased by HUF 1.864 million (scenario 1) and increased by HUF 930 million (scenario 2) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		**Effects to the net interest income in one year period**	
		2021 H2	**2020 H2**
HUF	(0.1%) parallel shift	352	272
HUF	0.1% parallel shift	(352)	(275)
Total		**(352)**	**(275)**

29.2.2. Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was done based on the assumption, that the price changes happens as a one off event, and it takes neither the possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets, into consideration.

[1] Quantitative data on interest rate risk are shown in Note 26

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

29.2. Market risk [continued]

29.2.2. Foreign exchange rate sensitivity analysis [continued]

The total net open position of OTP Mortgage Bank was 1 million HUF short on 31th December 2021 (compared to 1 million HUF as of 31/12/2020), which consisted of EUR and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

29.3. 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 includes the management and evaluation of the shareholder's 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 in the short turn is the continuous monitoring of its capital position, in the long turn the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Group.

The Group 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 Group exceeded its Core and Supplementary capital, the Group ensures the prudent operation by occasional measures including the owner of the Group.

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 2021 as well as in 2020.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2021 and 2020. 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).

In HUF million	**2021 Basel III**	**2020 Basel III**
Core capital	95,972	96,710
Supplementary capital	-	-
Regulatory capital	**95,972**	**96,710**
Credit risk capital requirement	56,741	47,560
Market risk capital requirement	-	-
Operational risk capital requirement	1,724	1,487
Total required regulatory capital	**58,465**	**49,047**
Surplus capital	**37,507**	**47,663**
Solvency ratio	**13.1%**	**15.8%**

The positive components of the Core capital are the following:
Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:
Prudential filter, Intangible assets

NOTE 30: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

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.

Off balance sheet items

	2021	**2020**
Current litigations	755	1,144
Loan facilities	62,693	40,783
Contingent and future liabilities total	**63,448**	**41,927**

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 17 million and HUF 42 million as at 31 December 2021 and 2020, respectively.

Commitments to extend credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. 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.

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 31: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

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. In case of foreign subsidiaries virtual share based payment was made uniformly from 2021 (in case of payments related to 2021).

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.

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 6,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 12,000.

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.

The parameters for the share-based payment relating to ongoing years 2018-2021 by Supervisory Board for periods of each year as follows:

The year 2018	The year 2019	The year 2020	The year 2021	Total
1,42	3,7	6,75	20,57	32,44

NOTE 32: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2021

	CHF	EUR	JPY	Total
Assets	9	8	208	225
Liabilities	(44)	(7)	(198)	(249)
Net position	**(35)**	**1**	**10**	**(24)**

As at 31 December 2020

	CHF	EUR	JPY	Total
Assets	9	13	280	302
Liabilities	(10)	(44)	(289)	(343)
Net position	**(1)**	**(31)**	**(9)**	**(41)**

Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Group's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Group.

NOTE 33: RELATED PARTY TRANSACTIONS (in HUF million)

33.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

33.1.1. Outstanding balances in the Consolidated Statement of Financial Position related to OTP Bank Plc.

The Group had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2021**	**2020**
Cash, amounts due from OTP Bank	15,647	4,305
Placements with OTP Bank	477	1,306
Accrued receivables	40	25

Liabilities	**2021**	**2020**
Amounts due to OTP Bank and other banks	(894,390)	(585,732)
Face value of issued mortgage bonds held by OTP Bank	(12,100)	(221,333)
Accrued interest expense due to OTP Bank	(29)	(3,345)
Other liabilities due to OTP Bank	(276)	(1,617)

33.1.2. Transactions in the Consolidated Statement of Profit or Loss related to OTP Bank Plc.

	2021	**2020**
Interest income	1,195	1,223
Interest expense	(9,765)	(3,763)
Account handling fees paid to OTP Bank	(224)	2,933
Other fees and commissions relating to lending received from OTP Bank	877	807
of which: Revenue from the value appraisal activity from OTP Bank	*876*	798
Other fees and commissions relating to lending paid to OTP Bank	(3,158)	(4,457)

33.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 3,723 million as at 31 December 2021. These loans were covered by HUF 6,754 million mortgages, which can be categorized into 3 different interest periods:

5 years: 1,02% - 12,78%
10 years: 2,35% - 4,74%
20 years: 2,49% - 4,24%

The APR[1] rate at the time the loan is disbursed is based on current market rates.

[1] Annual Percentage Rate

NOTE 33: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

	2021	2020
Compensations		
Share-based payment	33	34
Long-term employee benefits (on the basis of IAS 19)	24	10
Total	**57**	**44**

33.3. Outstanding balances/Transactions related to other related party[1]

33.3.1. Transactions related to OTP Building Society Ltd.

	2021	2020
Face value of issued mortgage bonds held by OTP Building Society Ltd.	64,696	77,646
Accrued interest expense	(1,939)	(1,972)

33.3.2. Transactions of OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2021	2020
Book value of non-performing loans sold to OTP Faktoring Ltd.	8	350
Selling price of the non-performing loans related to OTP Faktoring Ltd.	8	278

33.3.3. Transactions related to Merkantil Bank Ltd.

	2021	2020
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	96,665	49,700
Accrued interest expense	(2,223)	(2,150)

33.3.4. Further Outstanding balances/Transactions related to other related party

	2021	2020
Other liabilities due to other related party	(195)	(1,803)
Other operating income from other related party	1,756	118
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	629	531

Compensation of key management personnel is shown in Note 24.

In the normal course of the business the Group enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

NOTE 34: 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 Group '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 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.

[1]The Group has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 34: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2021	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	**15,616**	**31**	-	-	-	-	-	-	-	-	-	-	**15,616**	**31**	**15,647**
fixed interest	14,562	6	-	-	-	-	-	-	-	-	-	-	14,562	6	14,568
variable interest	1,054	25	-	-	-	-	-	-	-	-	-	-	1,054	25	1,079
Placements with other banks	-	-	-	-	**126**	-	-	-	**151,849**	-	-	-	**151,975**	-	**151,975**
variable interest	-	-	-	-	126	-	-	-	151,849	-	-	-	151,975	-	151,975
Securities at fair value through other comprehensive income	-	-	-	-	**16,037**	-	-	-	-	-	-	-	**16,037**	-	**16,037**
fixed interest	-	-	-	-	16,037	-	-	-	-	-	-	-	16,037	-	16,037
Loans measured at amortised cost	**78,229**	**77**	**172,866**	**142**	**13,750**	-	**75,778**	-	**793,925**	-	-	-	**1,134,548**	**219**	**1,134,767**
fixed interest	443	-	48	-	-	-	-	-	93,318	-	-	-	93,809	-	93,809
variable interest	77,786	77	172,818	142	13,750	-	75,778	-	700,607	-	-	-	1,040,739	219	1,040,958
Loans mandatorily measured at fair value through profit or loss	**7,814**	-	**11,036**	-	**73,064**	-	**28,718**	-	**285,178**	-	-	-	**405,810**	-	**405,810**
fixed interest	2	-	-	-	-	-	-	-	-	-	-	-	2	-	2
variable interest	7,812	-	11,036	-	73,064	-	28,718	-	285,178	-	-	-	405,808	-	405,808
Securities at amortised cost	-	-	-	-	**175,125**	-	-	-	-	-	-	-	**175,125**	-	**175,125**
fixed interest	-	-	-	-	175,125	-	-	-	-	-	-	-	175,125	-	175,125
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	**5,397**	-	-	-	-	-	-	-	**5,397**	-	**5,397**
variable interest	-	-	-	-	5,397	-	-	-	-	-	-	-	5,397	-	5,397
Other financial assets	-	-	-	-	-	-	-	-	-	-	**1,488**	**15**	**1,488**	**15**	**1,503**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,488	15	1,488	15	1,503

NOTE 34: INTEREST RATE RISK MANAGEMENT [continued]

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 OTP Bank and other banks	**-**	**-**	**-**	**-**	**508,549**	**-**	**514,223**	**-**	**-**	**-**	**-**	**-**	**1,022,772**	**-**	**1,022,772**
fixed interest	-	-	-	-	508,549	-	514,223	-	-	-	-	-	1,022,772	-	1,022,772
Liabilities from issued securities	**-**	**-**	**-**	**-**	**170,183**	**-**	**-**	**-**	**601,828**	**-**	**-**	**-**	**772,011**	**-**	**772,011**
fixed interest	-	-	-	-	-	-	-	-	601,828	-	-	-	601,828	-	601,828
variable interest	-	-	-	-	170,183	-	-	-	-	-	-	-	170,183	-	170,183
Derivative financial liabilities designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**1,804**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,804**	**-**	**1,804**
variable interest	-	-	-	-	1,804	-	-	-	-	-	-	-	1,804	-	1,804
Leasing liabilities	**6**	**18**	**10**	**9**	**43**	**40**	**54**	**50**	**79**	**54**	**-**	**-**	**192**	**171**	**363**
variable interest	1	-	1	-	3	-	1	-	-1	-			5	0	5
fixed interest	5	18	9	9	40	40	53	50	80	54			187	171	358
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,617**	**1**	**8,617**	**1**	**8,618**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	8,617	1	8,617	1	8,618
NET POSITION	**101,653**	**90**	**183,892**	**133**	**(397,080)**	**(40)**	**(409,781)**	**(50)**	**629,045**	**(54)**	**(7,129)**	**14**	**100,600**	**93**	**100,693**

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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	**4,242**	**63**	**-**	**-**	**2,008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,250**	**63**	**6,313**
fixed interest	3,381	5	-	-	2,008	-	-	-	-	-	-	-	5,389	5	5,394
variable interest	861	58	-	-	-	-	-	-	-	-	-	-	861	58	919
Placements with other banks	**-**	**-**	**-**	**-**	**1,303**	**-**	**-**	**-**	**124,478**	**-**	**-**	**-**	**125,781**	**-**	**125,781**
variable interest	-		-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**18,273**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,273**	**-**	**18,273**
fixed interest	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
Loans measured at amortised cost	**19**	**-**	**216**	**-**	**1,220**	**4**	**6,441**	**1**	**992,640**	**291**	**-**	**-**	**1,000,536**	**296**	**1,000,832**
fixed interest	-	-	-	-	-	-	-	-	44,329	-	-	-	44,329	-	44,329
variable interest	19	-	216	-	1,220	4	6,441	1	948,311	291	,	,	956,207	296	956,503
Loans mandatorily measured at fair value through profit or loss	**1**	**-**	**9**	**-**	**164**	**-**	**342**	**-**	**317,528**	**-**	**-**	**-**	**318,044**	**-**	**318,044**
variable interest	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
Securities at amortised cost	**-**	**-**	**-**	**-**	**108,455**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108,455**	**-**	**108,455**
fixed interest	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**442**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**442**	**-**	**442**
variable interest	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,467**	**19**	**1,467**	**19**	**1,486**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,467	19	1,467	19	1,486

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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 OTP Bank and other banks	**-**	**-**	**-**	**310**	**545,318**	**-**	**-**	**-**	**147,278**	**-**	**-**	**-**	**692,596**	**310**	**692,906**
fixed interest	-	-	-	310	-	-	-	-	106,999	-	-	-	106,999	310	107,309
variable interest	-	-	-	-	545.318	-	-	-	40.279	-	-	-	585.597	-	585.597
Liabilities from issued securities	**-**	**-**	**-**	**-**	**292,238**	**-**	**-**	**-**	**515,275**	**-**	**-**	**-**	**807,513**	**-**	**807,513**
fixed interest	-	-	-	-	122,215	-	-	-	515,275	-	-	-	637,490	-	637,490
variable interest	-	-	-	-	170,023	-	-	-	-	-	-	-	170,023	-	170,023
Derivative financial liabilities designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**780**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**780**	**-**	**780**
variable interest	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
Leasing liabilities	**6**	**7**	**11**	**13**	**51**	**60**	**68**	**70**	**122**	**84**	**-**	**-**	**258**	**234**	**492**
fixed interest	6	7	11	13	51	60	68	70	122	84	-	-	258	234	492
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	**6,402**	**1**	**6,402**	**1**	**6,403**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	6,402	1	6,402	1	6,403
NET POSITION	**4,256**	**56**	**214**	**(323)**	**(706,522)**	**(56)**	**6,715**	**(69)**	**771,971**	**207**	**(4,935)**	**18**	**71,699**	**(167)**	**71,532**

NOTE 35: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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 laid down by the NBH.

The following tables provide an analysis of liabilities 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.

As at 31 December 2021	**Within 3 months**	**Within one year and over 3 months**	**Within 5 years and over one year**	**Over 5 years**	**Without maturity**	**Total**
Cash, due from banks and balances with the National Bank of Hungary	15,647	-	-	-	-	15,647
Placements with other banks, net of allowance for placement losses	2,335	7,188	142,794	-	-	152,317
Securities at fair value through other comprehensive income	438	-	15,000	-	-	15,438
Loans measured at amortised cost	51,707	50,890	272,280	779,768	-	1,154,645
Loans mandatorily measured at fair value through profit or loss	13,649	16,088	90,723	281,445	-	401,905
Securities at amortised cost	1,499	27,000	102,960	40,405	-	171,864
Intangible assets	-	-	-	-	52	52
Property and equipment	-	-	-	-	191	191
Other financial assets	1,328	354	-	-	-	1,682
TOTAL ASSETS	**86,603**	**101,520**	**623,757**	**1,101,618**	**243**	**1,913,741**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	4,232	504,316	358,170	156,053	-	1,022,771
Liabilities from issued securities	8,806	1	556,000	215,120	-	779,927
Leasing liabilities	30	88	245	-	-	363
Other financial liabilities	7,314	634	-	-	-	7,948
TOTAL LIABILITIES	**20,382**	**505,039**	**914,415**	**371,173**	**-**	**1,811,009**
Receivables from derivative financial instruments designated as fair value hedge	167	833	2,382	1,004	-	4,386
Liabilities from derivative financial instruments designated as fair value hedge	(244)	(555)	(2,361)	(884)	-	(4,044)
Net position of financial instruments designated as fair value hedge	**(77)**	**278**	**21**	**120**	**-**	**342**
Net position of derivative financial instruments total	**(77)**	**278**	**21**	**120**	**-**	**342**
Commitments to extend credit	62,693	-	-	-	-	62,693
Off-balance sheet commitments	**62,693**	**-**	**-**	**-**	**-**	**62,693**

NOTE 35: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [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, due from banks and balances with the National Bank of Hungary	6,313	-	-	-	-	6,313
Placements with other banks, net of allowance for placement losses	2,622	7,113	116,446	-	-	126,181
Securities at fair value through other comprehensive income	441	-	15,000	-	-	15,441
Loans measured at amortised cost	40,143	50,939	269,435	656,103	-	1,016,620
Loans mandatorily measured at fair value through profit or loss	9,502	13,519	71,424	223,384	-	317,829
Securities at amortised cost	646	-	96,590	9,600	-	106,836
Intangible assets	-	-	-	-	66	66
Property and equipment	-	-	-	-	192	192
Other financial assets	1,688	-	-	-	-	1,688
TOTAL ASSETS	**61,355**	**71,571**	**568,895**	**889,087**	**258**	**1,591,166**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	635	365,006	119,063	28,027	-	512,731
Liabilities from issued securities	8,705	122,100	556,000	120,100	-	806,905
Leasing liabilities	37	110	345	-	-	492
Other financial liabilities	5,992	411	-	-	-	6,403
TOTAL LIABILITIES	**15,369**	**487,627**	**675,408**	**148,127**	**-**	**1,326,531**
Receivables from derivative financial instruments designated as fair value hedge	-	-	341	101	-	442
Liabilities from derivative financial instruments designated as fair value hedge	-	-	103	677	-	780
Net position of financial instruments designated as fair value hedge	-	-	238	(576)	-	(338)
Net position of derivative financial instruments total	**-**		**238**	**(576)**	**-**	**(338)**
Commitments to extend credit	40,783	-	-	-	-	40,783
Off-balance sheet commitments	**40,783**	**-**	**-**	**-**	**-**	**40,783**

NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

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, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38.e) 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, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.
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 3 of the fair value hierarchy.

NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [accrued]

Fair value of financial assets and liabilities

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	15,647	15,647	6,313	6,313
Placements with other banks	151,975	151,975	125,781	125,781
Securities at fair value through other comprehensive income	16,037	16,037	18,273	18,273
Loans at amortised cost	1,134,767	1,175,594	1,001,739	1,302,678
Loans mandatorily measured at fair value through profit or loss	405,810	405,810	318,044	318,044
Securities at amortized cost	175,125	178,454	108,455	128,197
Derivative financial assets designated as hedge accounting relationships	5,397	5,397	442	442
Other financial assets	1,503	1,503	1,486	1,486
FINANCIAL ASSETS TOTAL	**1,906,261**	**1,950,417**	**1,580,533**	**1,901,214**
Amounts due to OTP Bank and other banks	1,022,772	993,614	692,906	693,429
Liabilities from issued securities	772,011	736,904	807,513	869,870
Derivative financial instruments designated as hedging instruments	1,804	1,804	780	780
Leasing liabilities	363	363	492	492
Other financial liabilities	8,618	8,618	6,403	6,403
FINANCIAL LIABILITIES TOTAL	**1,805,568**	**1,741,303**	**1,508,094**	**1,570,974**

NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: 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.
- 3rd Level: 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 2021

	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	405,819	-	-	405,819
FVOCI securities	16,037	16,037	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	5,397	-	5,397	-
Negative fair value of derivative financial instruments designated as fair value hedge	(1,804)	-	(1,804)	-
Total	**425,449**	**16,037**	**3,593**	**405,819**

As at 31 December 2020

	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	318,044	-	-	318,044
FVOCI securities	18,273	18,273	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	442	-	442	-
Negative fair value of derivative financial instruments designated as fair value hedge	(780)	-	(780)	-
Total	**335,979**	**18,273**	**(338)**	**318,044**

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
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Operational costs	+/- 20%

NOTE 36: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [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.

31 December 2021	Unobservable inputs	Fair values		Effect on profit and loss	
		Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	406,362	405,266	549	(547)
Loans mandatory measured at fair value through profit and loss	Operational costs	412,868	399,020	7,054	(6,794)

31 December 2020	Unobservable inputs	Fair values		Effect on profit and loss	
		Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	319,857	316,251	1,813	(1,793)
Loans mandatory measured at fair value through profit and loss	Operational costs	324,845	311,525	6,801	(6,519)

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2021

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	318.044	106.605	986	(4.941)	(14.875)	405.819
Total	**318.044**	**106.605**	**986**	**(4.941)**	**(14.875)**	**405.819**

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2020

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	256,943	74,579	(2,851)	(1,015)	(9,612)	318,044
Total	**256,943**	**74,579**	**(2,851)**	**(1,015)**	**(9,6129**	**318,044**

NOTE 36: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Amount, timing and uncertainty of future cash flows - hedging instruments

2021	**Maturity**		
Interest rate risk- interest rate swap (HUF)	One year to five years	More than five years	**Total**
Fair value hedge			
Notional	15,000	-	**15,000**
Average Interest Rate	1.5%	-	-
Cash flow hedge			
Notional	12,194	28,027	**40,221**
Average Interest Rate	1.01%	1.58%	-

2020	**Maturity**		
Interest rate risk- interest rate swap (HUF)	One year to five years	More than five years	**Total**
Fair value hedge			
Notional	15,000	-	**15,000**
Average Interest Rate	1.5%	-	-
Cash flow hedge			
Notional	12,194	28,027	**40,221**
Average Interest Rate	1.01%	1.58%	-

Derivatives held for hedging – as at 31 December 2021

	Assets	**Liabilities**
Derivatives designated in cash fair value hedges		
Interest rate swaps	-	1,804
Derivatives designated in cash flow hedges		
Interest rate swaps	5,397	-
Total derivatives designated in cash flow hedges	**5,397**	**1,804**

Derivatives held for hedging – as at 31 December 2020

	Assets	**Liabilities**
Derivatives designated in cash fair value hedges		
Interest rate swaps	309	-
Derivatives designated in cash flow hedges		
Interest rate swaps	133	780
Total derivatives designated in cash flow hedges	**442**	**780**

NOTE 36: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Hedge accounting – hedge instruments– as at 31 December 2021

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2021**
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	-	1,804	Derivative assets (liabilities) held for risk management	(2,125)
Cash flow hedge	40,221	5,397	-	Derivative assets (liabilities) held for risk management	6,130

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	6,652	(521)	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge instruments– as at 31 December 2020

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2020**
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	309	-	Derivative assets (liabilities) held for risk management	310
Cash flow hedge	40,221	133	780	Derivative assets (liabilities) held for risk management	780

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	292	488	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge items– as at 31 December 2021

	Type of risk	**Carrying amount of the hedging instrument for the year ended 31 December 2021**		**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**		**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**
		Assets	**Liabilities**	**Assets**	**Liabilities**	
Fair value hedge						
- Other securities	***Interest rate risk***	-	14,961	-	(1,753)	Liabilities from issued securities

	Type of risk	**Carrying amount of the hedging instrument for the year ended 31 December 2021**		**Cash flow hedge reserve year ended 31 December 2021**	**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**
		Assets	**Liabilities**		
Cash flow hedge					
- Loans	***Interest rate risk***	-	40,357	(6.651)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedge items– as at 31 December 2020

	Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Other securities	***Interest rate risk***	-	14,945	-	(384)	Liabilities from issued securities

	Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Cash flow hedge reserve year ended 31 December 2020	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
		Assets	Liabilities		
Cash flow hedge					
- Loans	***Interest rate risk***	-	40,279	(292)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 37: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2021

Due to the prolongation of the coronavirus pandemic, the Hungarian government extended the repayment moratorium introduced in March 2020 in several steps, but from November 2021 it will no longer be general, but only for those in need.

In order to eliminate the effects of inflation and reduce the burden on consumers, the Hungarian government maximized the interest rates on existing loans with a reference interest rate at the October 2021 level until the end of June 2022.

The Mortgage Bank estimated a loss of HUF 3,340 million due to the extension of the repayment moratorium and a loss of HUF 2,694 million due to the interest rate maximization, which was also recognized in the profit in 2021.

NOTE 38: POST BALANCE SHEET EVENTS

In the second half of February 2022 the military conflict between Russia and Ukraine escalated.
The Company's management has assessed the armed conflict in Ukraine for the year 2021 and concluded that it has no impact on the data as of December 31, 2021. The Company has examined the impact of the conflict on its business and continues to assess the going concern basis.

Based on the assessment of the management of OTP Bank (as the parent company), the Russian-Ukrainian conflict has no significant negative impact on OTP Bank's business, financial condition, profitability, liquidity or capital position. There was no significant uncertainty about the going concern principle.

The financial statements for 2021 do not contain any descriptions of the possible consequences of the Ukrainian-Russian conflict and are treated as non-adjusting events after the balance sheet date.

Building a better
working world

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of OTP Jelzálogbank Zrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2021 consolidated financial statements of OTP Jelzálogbank Zrt. ("the Company") and its subsidiaries (altogether "the Group") included in the accompanying JZB_IFRS_KKONSZI HUN 2021 final_preview.xhtml[1] digital file, which comprise the consolidated statement of financial position as at 31 December 2021 - showing a balance sheet total of HUF 1,910,582 million and a net comprehensive income for the year of HUF 27,829 million -, the related consolidated statement of comprehensive income, consolidated statement of changes in equity, 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also 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 ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

[1] Digital identification of the above referred JZB_IFRS_KKONSZI HUN 2021 final_preview.xhtml consolidated financial statements, using SHA 256 HASH algorithm is A94F37BE952351DE69B79FA5F9611B11281257C1510277611B6E88D21E0EAE8F

We are independent of the Group in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these 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 judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<u>Determination of expected credit losses</u>

Material misstatements due to fraudulent financial reporting often result from understatement of expected credit losses. Credit impairment is a highly subjective area due to the level of judgement applied by management in determining expected credit losses ("ECL"). The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial	We involved valuation specialists to assist us in performing our audit procedures on ECL and related credit impairments. Our audit procedures included among others the following procedures. We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans at amortized cost and controls over ECL calculations including the quality of underlying data and applications. We assessed the

condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. These models require the significant periodic judgment of management regarding correct segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities.

Due to the significance of loans at amortised cost (representing 59% of Total Assets as of 31 December 2021) and the related estimation uncertainty, this is considered a key audit matter.

controls over the general IT environment of the applications relevant from audit perspective related to the determination of ECL.

For ECL calculated on collective basis we evaluated the model governance, methodologies, inputs and management assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements).

We considered the regulatory measures on the assumptions applied by the Group for ECL estimation purposes.

We also assessed whether the disclosures in the consolidated financial statements appropriately reflect the Group's exposure to credit risk and are compliant with the EU IFRSs.

The Group's disclosures about its risk management policies are included in Note 2.10 Loss allowance which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 8 Loans and Note 21 Risk cost.

<u>General Information Technology controls over the financial reporting process</u>

A significant part of the Group's financial reporting process is significantly reliant on IT systems with embedded automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to

We focused our audit on those IT systems and controls that are significant for the Group's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures.

We understood and assessed the overall IT control environment and the controls in place which included

IT systems and related data are made and authorized in an appropriate manner. As our audit of the financial statements sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort has been carried out regarding to understand and test IT infrastructure and applications including relevant application controls. Furthermore, the complexity of IT systems and nature of application controls requires special technology expertise, specialized skills to be involved in the audit we therefore consider this as a key audit matter.	controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system. As part of our audit procedures, we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit. The Group's disclosures about its IT systems and related IT general and application controls are included in section System of internal controls and IT Controls of the Business report.

Other matters

The consolidated financial statements as at 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 23 March 2021.

Management is responsible for the presentation of the consolidated financial statements in the format that complies with the Articles 3 and 4 of Commission (EU) Regulation 2019/815 of 17 December 2018 ("ESEF Regulation"). The scope of our audit was the human-readable content of the electronically identified digital file, which contains the consolidated financial statements. The scope of our audit did not include to review and consequently we do not report on, whether the digitalized information complies in all material respect with the requirements of ESEF Regulation.

Other information

Other information consists of the 2021 consolidated business report of the Group and the Annual report. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether 1) 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 and 2) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the consolidated business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available and whether the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2021 is consistent, in all material respects, with the 2021 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, we do not express opinion in this regard.

We also confirm that the Group have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law and that the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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 EU IFRSs and for the preparation in accordance with the supplementary requirements of the Hungarian Accounting Law relevant for consolidated financial statements prepared in accordance with EU IFRSs, 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.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives 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 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 Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment 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 our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our 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 disclosures, 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 internal control that we identify during our 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, actions taken to eliminate threats or safeguards applied.

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.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as the statutory auditor of OTP Jelzálogbank Zrt. by the General Assembly of Shareholders of the Company on 25 March 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Nagyváradiné Szépfalvi Zsuzsanna.

Budapest, 24 March 2022

(The original Hungarian version has been signed.)

Nagyváradiné Szépfalvi Zsuzsanna
Engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165

Nagyváradiné Szépfalvi Zsuzsanna
Registered auditor
Chamber membership No.: 005313

OTP MORTGAGE BANK LTD.

SEPARATE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
31 DECEMBER 2021

CONTENTS

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
Cash, amounts due from banks and balances with the National Bank of Hungary	*5.*	14,568	5,395
Placements with other banks, net of allowance for placement losses	*6.*	151,975	125,781
Financial assets at fair value through other comprehensive income	*7.*	16,037	18,273
Loans at amortised cost	*8.*	1,136,290	1,001,739
Loans mandatorily measured at fair value through profit or loss	*8.*	405,819	318,044
Investments in subsidiaries	*9.*	3,063	3,063
Securities at amortised cost	*10.*	175,125	108,455
Intangible assets	*11.*	191	192
Property and equipment	*11.*	12	20
Right of use assets	*11.*	175	226
Derivative financial assets designated as hedge accounting relationships	*12.*	5,397	442
Deferred tax assets		78	-
Current tax assets		-	1,038
Other assets	*13.*	4,581	4,497
TOTAL ASSETS		**1,913,311**	**1,587,165**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	1,022,772	692,906
Liabilities from issued securities	*15.*	772,011	807,513
Derivative financial liabilities designated as hedge accounting relationship	*16.*	1,804	780
Deferred tax liabilities		-	86
Leasing liabilities	*28.*	182	232
Current tax liabilities		465	146
Provisions	*17.*	804	774
Other liabilities	*17.*	7,593	5,626
TOTAL LIABILITIES		**1,805,631**	**1,508,063**
Share capital	*18.*	37,000	37,000
Retained earnings and reserves	*19.*	70,680	42,102
TOTAL SHAREHOLDER'S EQUITY		**107,680**	**79,102**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,913,311**	**1,587,165**

Budapest, 24 March 2022

…………………………………………….	……………………………………………...
András Becsei	Petra Szudárovicsné Csonka
Chief Executive Officer	Chief Financial Officer

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
Interest income:			
Interest income calculated using the effective interest method	*21.*	64,523	56,610
Income similar to interest income	*21.*	15,202	13,091
Total Interest Income		**79,725**	**69,701**
Total Interest Expense	*21.*	**(43,816)**	**(34,738)**
NET INTEREST INCOME		**35,909**	**34,963**
Loss allowance / (Release of loss allowance) on loan, placement and repo receivables losses		912	(16,072)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost		(157)	(184)
Provision for loan commitments and financial guarantees given		(47)	(214)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(986)	(2,851)
Risk cost total	22.	**(278)**	**(19,321)**
NET INTEREST INCOME AFTER RISK COST		**35,631**	**15,642**
Losses arising from derecognition of financial assets measured at amortised cost	*24.*	(23)	189
Modification loss	*4.*	(6,034)	(9,584)
Income from fees and commissions	*23.*	2,924	1,790
Expenses from fees and commissions	*23.*	(6,979)	(6,302)
Net loss from fees and commissions		**(4,055)**	**(4,512)**
Foreign exchange (losses)/gains	*24.*	(2)	1
Gains / (Losses) on financial instruments at fair value through profit or loss	*24.*	4,941	(1,016)
Net other operating (expense) / income	*25.*	(77)	(605)
Other operating expenses	*25.*	163	206
Net operating (expense) / income		**4,699**	**(1,414)**
Personnel expenses	*25.*	(684)	(655)
Depreciation and amortization	*25.*	(176)	(183)
Other administrative expenses	*25.*	(3,637)	(3,429)
Other administrative expenses		**(4,497)**	**(4,267)**
PROFIT / (LOSS) BEFORE INCOME TAX		**25,721**	**(4,324)**
Income tax expense	*27.*	(2,165)	(1,041)
NET PROFIT / (LOSS) FOR THE PERIOD		**23,556**	**(5,365)**
Earnings per share (in HUF)			
Basic and diluted	*29.*	63,665	(14,500)

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
NET (LOSS) / PROFIT FOR THE PERIOD	19.	**23,556**	**(5,365)**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income	*19.*	(1,825)	(240)
Deferred tax related to securities fair value through other comprehensive income	*19.*	164	23
Gains on derivative financial instruments designated as cash flow hedge	37.	6,652	292
Other comprehensive income, net of income tax		**4,991**	**75**
NET COMPREHENSIVE (LOSS) / INCOME		**28,547**	**(5,290)**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Share Capital	**Retained earnings and other reserves**	**Total**
Balance as at 1 January 2020	**37,000**	**47,361**	**84,361**
Net loss for the period	-	(5,365)	(5,365)
Other comprehensive income	-	75	75
Total comprehensive income	-	42,071	79,071
Share-based payment	-	31	31
Balance as at 31 December 2020	**37,000**	**42,102**	**79,102**
Balance as at 1 January 2021	**37,000**	**42,102**	**79,102**
Net profit for the period	-	23,556	23,556
Other comprehensive income	-	4,991	4,991
Total comprehensive loss	**37,000**	**70,649**	**107,649**
Share-based payment	-	31	31
Balance as at 31 December 2021	**37,000**	**70,680**	**107,680**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021 (in HUF million)

	Note	2021	2020
OPERATING ACTIVITIES			
Profit before income tax		25,721	(5,365)
Net interest (paid) / received		(2,744)	(8)
Depreciation and amortization		176	183
Loss allowance on loans and placements	*22.*	(912)	16,261
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	*22.*	1	11
Loss allowance / (Release of loss allowance) on securities at amortised cost	*22.*	156	173
Loss allowance / (Release of loss allowance) on other assets	*13.*	19	18
Provision on off-balance sheet commitments and contingent liabilities	*17.*	30	(23)
Share-based payment	*32.*	31	31
Unrealised losses / (gains) on fair value adjustment of financial instruments at fair value through profit or loss	*22.*	(3,955)	2,851
Unrealised losses on fair value adjustment of derivative financial instruments		(4,005)	3,228
Interest expense form leasing liabilities	*28.*	(6)	(7)
Foreign exchange loss		1	(2)
Proceeds from sale of tangible and intangible assets		(3)	-
Net changing in assets and liabilities in operating activities			
Net increase in placements with other banks before allowance for placement losses	*6.*	(26,169)	9,921
Net increase in loans		(214,594)	(159,039)
Increase in other assets, excluding advances for investments and before provisions for losses	*13.*	937	(3,483)
Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	*14.*	329,697	15,893
(Decrease) / Increase in other liabilities	*17.*	528	(2,874)
Net increase in the compulsory reserve established by the National Bank of Hungary		(17)	-
Income tax paid	*27.*	(1,065)	-
Net cash provided by operating activities		**103,827**	**(122,231)**

INVESTING ACTIVITIES

Proceeds from sale of securities at fair value through other comprehensive income	*7.*	7,720	721
Change in derivative financial instruments designated as hedge accounting		74	(3,480)
Increase in investments in subsidiaries	*9.*	-	(1,066)
Decrease in investments in subsidiaries		-	-
Dividend income		-	-
Increase in securities at amortised cost	*10.*	(68,170)	(109,852)
Redemption of securities at amortised cost	*10.*	1,344	1,224
Additions to property, equipment and intangible assets	*11.*	(118)	(137)
Disposal of property, equipment and intangible assets	*11.*	3	-
Net cash used in investing activities		**(59,147)**	**(112,590)**

		2021	**2020**
FINANCING ACTIVITIES			
Leasing payments		(44)	(42)
Cash received from issuance of securities	*15.*	88,650	310,100
Cash used for redemption of issued securities	*15.*	(124,130)	(71,953)
Net cash (used in) / provided by financing activities			
Net increase / (decrease) in cash and cash equivalents		**9,156**	**3,284**
Cash and cash equivalents at the beginning of the year		**5,384**	**2,100**
Cash and cash equivalents at the end of the year		**14,540**	**5,384**
Interest received		*67,521*	*54,024*
Interest paid		*41,486*	*25,373*

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. (“OTP Mortgage Bank” or the “Bank”) as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These separate financial statements authorised for issue on 24 March 2022. The Bank’s owners have the power to amend the separate financial statements after issue if applicable.

The Bank completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Separate Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank’s registered office address is Nádor u. 21, Budapest 1051.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the separate financial statements is the Executive Officer, András Becsei and Head of Department, Petra Szudárovicsné Csonka.

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Ernst &Young Auditing Ltd. (001165), 1132 Budapest Váci Street 20. Registered under 01-09-267553 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor:Zsuzsanna Nagyváradiné Szépfalvi, registration number: 005313.

Audit service fee agreed by the Articles of Association for the year ended 2021 is HUF 36,07 million + VAT.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Bank is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Bank provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans, and HUF denominated real estate development loans. From 2017 the Bank expanded their services with independent liens purchase and sale by instalment, provides also by refinancing loans to commercial banks.

The Bank employs limited number of staff at its head office and use 354 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Bank’s collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Details of related party balances and transactions are summarised in Note 33 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Bank is 10.3 years. The Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2021 and 2020 the number and the average number of the employees at the Bank were 41 and 39 respectively.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2. Base of Accounting

These Separate Financial Statement were prepared based on the assumption of the Management that the Bank will remain in business for the foreseeable future. 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 Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

OTP Mortgage Bank's presentation and functional currency 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").

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2021

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 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)
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 "Leases" – "**Covid 19-Related Rent Concessions beyond 30 June 2021" (effective for annual periods beginning on or after 1 April 2021),

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's 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 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture"**– "Annual Improvements to IFRSs 2018-2020 Cycle" - adopted by EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – adopted by the EU on 28 June 2021 Annual Improvements (effective fog annual periods beginning on or after 1 January 2022)
- **Amendments to IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2023),

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 date of publication of these financial statements:

- **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).
- **Amendments to IAS 12 "Income Taxes" –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 "Insurance Contracts" –** Initial application of IFRS 17 and IFRS 9 – Comparative Information (effective date for annual periods beginning on or after 1 January 2023)

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 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.

During the preparation of separate financial statements assets and liabilities, income and expenses are presented separately, except in certain cases, when one of the IFRS standards prescribes net presenting related to certain items. (See below 2.7.)

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 at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. 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 loss for the year and shareholders' equity differ 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 in these separate financial statements. The consolidated financial statements and the separate financial statements are published on the same date. As the parent company, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank. The OTP Mortgage Bank Ltd. is also part of a larger consolidation, which is made by OTP Bank, as an ultimate parent company managing the group.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the 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.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss

2.6.1 Securities at fair value through other comprehensive income ("FVOCI securities")

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.

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 very 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 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 Mortgage 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 all of its open derivative transactions collateralised.

The Bank has certain swap and forward transactions, which are qualified as hedging instrument based on the Bank's risk management policy. However, these financial instruments are not qualified as hedging instrument based on IFRS 9, therefore the Bank qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Separate Statement of Profit or Loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and 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.

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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Bank for risk management purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Interest rate swaps

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 swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

[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 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.

2.7. 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.

2.8. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting 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.

The Bank has not had embedded derivatives in 2021 and in 2020.

2.9. Loans, placements with other banks and allowance for loan and placement 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 loans, 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 ("FVTPL loans").

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.

In case of the above mentioned financial assets measured at amortised cost transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation. In case of FVTPL loans fees and charges are recognised when incurred in the separate statement of profit or loss.

Loans, placements with other banks and repo receivables loans 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. In case of the above mentioned financial assets at amortised cost gains or losses from derecognition are presented in "Gains/losses arising from derecognition of financial assets at amortised cost" line. In case of FVTPL loans gains or losses from derecognition are presented in "Net operating income".

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Loans, placements with other banks and allowance for loan and placement losses [continued]

Change in the fair value of FVTPL loans is broken down into two components and presented in the separate statement of profit or loss as follows:

- Portion of the change in fair value arising from changes in credit risk are presented 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".
- The remaining component of the change is presented in fair value within "Net operating income" as "Gains/(Losses) on financial instruments at fair value through profit or loss".

Initially, financial assets shall be recognised at fair value which is usually equal to the transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial assets is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the initial fair value difference in the Separate Statement of Profit or Loss.

When the fair value of financial assets is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and only recognised in profit or loss when the instrument is derecognised or the inputs became observable.

Initial fair value of loans lent at interest below market conditions is lower than their transaction price.

Allowance for losses on loans, placements with other banks and repo receivables represent management assessment for potential losses in relation to these activities.

The Bank recognises 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 Bank is exposed to credit risk.

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 Bank under the contract and the cash flows that the Bank expects to receive.

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 statement of profit or loss. Interest income and amortised cost are accounted for using the effective interest rate method.

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 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Loans, placements with other banks and allowance for loan and placement losses [continued]

Modification of contractual cash flows

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 separate statement of profit or loss. Modification gain or loss is accounted in 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.

The changes of net present value should be calculated on portfolio level in case of retail exposures. 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.

Among the possible contract amendments, the Bank 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 unamortised fees of the derecognised asset should be presented as Income similar to interest income. The newly recognised financial asset is initially measured at fair value and is placed in stage 1 if the derecognised financial asset was in stage 1 or stage 2 portfolio. The newly recognised financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognised 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 Bank 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.

Originated credit impaired financial assets

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.

In the case of POCI financial assets, interest income is always recognized by applying the credit-adjusted effective interest rate.

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 Bank's books.

2.10 Loss allowance

Loss Allowance for loans and placements with other banks and repo receivables 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.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. Collective impairment loss is recognised for loans with similar credit risk characteristics when it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence. The expected cash flows for loan portfolios are estimated based on historical loss experience.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10 Loss allowance [continued]

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.

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,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- 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.

The Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. This might occur if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank considers souvereign exposures having low credit risk.

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]

2.10. Loss allowance [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.

2.11. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral inspector - and as required additional collateral – determined by law – registered in the Bank's collateral register.

2.12. 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 computed 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% - 2.0%
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 written down immediately to the estimated recoverable amount.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. 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.

2.14. 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 IFRS 16 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: ~2.9375%

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 1.5 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.

Right-of-use assets are presented separately in the financial statements.

2.15. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. 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.

For exposures categorized into stage 1 and stage 2 the interest income is recognized on a gross basis. For exposures categorized into stage 3 (using effective interest rate) and for POCI (using credit-adjusted effective interest rate) the interest income is recognized on a net basis.

The time-proportional income similar to interest income of derivative financial instruments calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in income similar to interest income. Interest income of FVTPL loans is calculated based on interest fixed in the contract and presented in "Income similar to interest income" line.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction cost and the amortisation of any discount and 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 recognised are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortised 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.

2.17. 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. These fees are related to deposits, cash withdrawal, security trading, bank card, etc.

The Bank recognise income if performance obligations related to the certain goods or service are satisfied, performed, and control over the asset is transferred to the customer, and it is probable that consideration payable will probably flow to the entity. In case of those service, where the Bank transfer control over the asset continuously, income is recognised on accrual basis.

2.18. Income tax

The Bank considers corporate income tax and local business tax and the innovation contribution as income tax in Hungary. 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 and liabilities are presented in a net way in the statement of financial position. Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the statement of financial position.

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.

The Bank 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 Bank considers the availability of qualifying taxable temporary differences and the probability of other future taxable profits to determine whether future taxable profits will be available.

The Bank 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Income tax [continued]

The Bank only offsets its deferred tax liabilities against deferred tax assets when:

- there is a legally enforceable right to set-off current tax liabilities against current tax assets, and
- the taxes are levied by the same taxation authorities on either
    - the same taxable entity or
    - different taxable entities which intend to settle current tax liabilities and assets on a net basis.

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. Therefore, the banking tax is considered as an other administrative expense, not as income tax.

Pursuant to the Corporate Tax Act, Jelzálogbank Zrt. Is a member of the corporate tax group represented by OTP Bank.

2.19. 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. After initial recognition the Group subsequently measures those contracts at a higher of the amount of the loss allowance or of the amount initially recognised less the cumulative amount of income recognized in accordance with IFRS 15.

2.20. Government subsidies

The main activity of the Bank was supported by the Hungarian State government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Separate Statement of Profit or Loss in the period to which they relate.

2.21. 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. The Bank’s short-term employee benefits are wages, salaries and bonuses, premium, paid annual leave and paid sick leave and other free services (health care, reward holiday). Short-term employee benefits are expected to pay by the Bank within 12 month. These benefits are recognised as an expense and liability undiscounted in the separate financial statements.

Long-term employee benefits are mostly the jubilee reward. Long-term employee benefits are recognised as an expense and liability in the separate financial statements. Liabilities are regularly remeasured. Gains or losses due to the remeasurement are recognised in the separate statement of profit or loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. 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, due from banks and balances with the NBH" line item excluding compulsory reserve are considered as cash and cash equivalents by the Bank. This line item shows balances of HUF and foreign currency cash amounts, and sight depos from NBH and from other banks, furthermore balances of current accounts.

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 separately net in the statement of cash flows for the monetary items which have been revaluated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.23. Comparative figures

Reclassification of certain local taxes

The Bank has reviewed prescriptions related to local taxes, the determination of their tax base and their effects on payment obligation. As a result of the review the local business tax and innovation contribution have been reclassified to income tax in line with banking industry practice. In the financial statements prepared for the year ended 31 December 2021 the Bank presents these taxes as income tax and reclassified the financial information for comparative periods. Derecognition of financial assets at amortized cost is presented separately in the separate statement of profit or loss. Those items are to be separated from those results which previously contained them. In the separate financial position there is provision for conditional liability to be separated from other liabilities which previously contained them. All these reclassifications were necessary to improve presentation.

Statement of Financial Position

Line item	31 December 2021	31 December 2020 after reclassification	Reclassification of amounts related to local taxes	31 December 2020 Previously presented
Current tax assets	**-**	**1,038**	-	**1,038**
Other assets	**4,581**	**4,497**	-	**4,497**
TOTAL ASSETS	**1,913,311**	**1,587,165**	-	**1,587,165**
Current tax liabilities	**465**	**146**	146	-
Other liabilities	**7,593**	**6,400**	(146)	**6,546**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,913,311**	**1,587,165**	-	**1,587,165**

Statement of Profit or Loss

Line item	Year ended 31 December 2021	Year ended 31 December 2020 after reclassification	Reclassification of amounts related to local taxes	Year ended 31 December 2020 Previously presented
Taxes, other than income tax	2,238	2,162	(1,041)	3,203
Other administrative expenses	**(3,637)**	**3,429**	**(1,041)**	**4,470**
OTHER ADMINISTRATIVE EXPENSES	**(4,497)**	**4,267**	**(1,041)**	**5,308**
PROFIT BEFORE INCOME TAX	**25,721**	**(4,324)**	**(1,041)**	**(5,365)**
Income tax	(2,165)	(1,041)	(1,041)	-
NET PROFIT FOR THE YEAR	**23,556**	**(5,365)**	**-**	**(5,365)**

Amendments to the information published in the supplementary annexes concerned the following supplementary notes

Note	Name of the Note
17	Other liabilities and provisions
25	Other operating income and expenses and other administrative expenses
27	Income tax

The Bank has reclassified the presentation of the detailed notes to the amended statement of financial position and statement of profit or loss line items for comparative information in accordance with the new values. These amendments have been marked “Reclassified” by the Bank.

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 the European Union 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 historical experience 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. Impairment on loans and placements

The Bank regularly assesses its loan portfolio 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.

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 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 recognised based on the credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

Other provision is recognized 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 19.)

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 recognized 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.

NOTE 4: COVID-19

Covid-19 has had substantial implications for the operations of the Bank during 2021. Below are some of the more important Covid-19 related events that occurred in Hungary:

- On 1 April 2021 Moody's rating agency upgraded the outlook on the Hungarian banking sector from negative to stable
- On 25 May 2021 the National Bank of Hungary did not touch the benchmark interest rates, but stressed that the central bank is ready to tighten monetary conditions in a proactive manner to the extent necessary in order to ensure price stability and to mitigate inflation risks.
- On 9 June 2021 Viktor Orbán Prime Minister announced that their actual personal income tax payments (up to the tax burden of the average wage) will be refunded to families raising kids in early-2022 provided that the 2021 GDP growth surpasses 5.5%.
- According to Government Decree No. 317/2021. (VI. 9.) released on 9 June 2021 the payment moratorium was extended with unchanged conditions until 30 September 2021.
- On its 22 June 2021 meeting the Monetary Council embarked on a rate hike cycle: the base rate was increased by 30 bps to 0.9%. Also, effective from 24 June 2021 the National Bank of Hungary raised the one-week deposit rate to the level of the base rate.
- The Monetary Council has started to transform the use of instruments having an effect at longer maturities. Accordingly, with the exhaustion of the HUF 3,000 billion available amount, the Funding for Growth Go! programme will be phased out. However, the central bank continues to consider the government securities purchase programme to be crucial in its set of monetary policy instruments. The central bank will continue to use the programme by maintaining a lasting presence in the market, taking a flexible approach to changing the quantity and structure of weekly securities purchases, to the extent and for the time necessary.
- On 2 July 2021 the National Bank of Hungary recommended in its circular that financial institutions should abstain from charging prepayment fees in the case of full or partial prepayment of deferred interest and fee accumulated during the term of the moratorium. The central bank also recommended free of charge loan contract modification if borrowers voluntarily undertake higher monthy instalments in order to shorten the remaining maturity.
- On 23 July 2021 the European Central Bank announced that restrictions concerning dividend payments won't be prolonged beyond the previously effective deadline of 30 September 2021.
- A Government Decree was published on 23 July 2021 facilitating the VAT refund in the case of newly built houses in brownfield sites.
- On 27 July 2021 the National Bank of Hungary raised the base rate by 30 bps to 1.2%, then on 29 July the one-week deposit rate was hiked to the same level, by the same magnitude.
- On 30 July 2021 the results of the 2021 EU-wide stress test conducted by the European Banking Authority were revealed. The fully loaded consolidated Common Equity Tier 1 (CET1) ratio of OTP Bank Plc. would change to 16.3% under the baseline scenario and to 11.2% under the adverse scenario in 2023, compared to 14.2% as at the end of 2020.
- On 24 August 2021 the National Bank of Hungary raised the base rate by 30 bps to 1.5%. Additionally, the central bank decided to begin gradually withdrawing the government securities purchase programme while considering aspects of maintaining market stability. Also, the central bank increased the available amount under the Bond Funding for Growth scheme by HUF 400 billion to HUF 1,550 billion.

NOTE 4: COVID-19 (in HUF mn) [continued]

- Pursuant to Government Decree 536/2021. (IX. 15.) published on 15 September, the Government decided to extend the debt repayment moratorium with the following conditions:
    - The blanket moratorium was extended by an additional month, until the end of October, in an unchanged form.
    - From the beginning of November 2021 until 30 June 2022 only the eligible borrowers can participate in the moratorium provided that they submitted a request to their banks about their intention to stay. So, the extension beyond October is not automatic: borrowers had to submit a notification to their bank (opt-in). Eligible retail borrowers include private individuals whose income fell compared to the previous period, unemployed people, fostered workers, families raising children below the age of 25 or expecting a baby, and pensioners (for details see the relevant decree). Eligible companies shall fulfil the following criteria: more than 25% decline in revenues in the 18 months period preceding the submission of the request to participate, and if the company has not concluded a new subsidized loan contract since 18 March 2020. During the term of the one-month extension until the end of October, eligible clients could submit the necessary documents to their banks in order to stay in the scheme until June 2022, so this one-month lengthening could be regarded as technical.
- According to Government Decree 537/2021. (IX. 15.) published on 15 September, credit institutions shall re-calculate the interest deferred during the period spent in the moratorium in the case of overdraft loans and credit card exposures. The base for the re-calculation shall be the NBH's statistical data for the average annualized cash loan interest rate published for February 2020. The difference between the deferred interest booked according to the original contract and the re-calculated amount shall be refunded to the borrowers by way of crediting the borrowers' account with the due amount.
- On 21 September 2021 the National Bank of Hungary hiked the base rate by 15 bps to 1.65%. Furthermore, the NBH continued to gradually withdraw the government securities purchase programme.
- On 4 October 2021 the National Bank of Hungary launched the FGS Green Home Programme as part of its green monetary policy toolkit strategy.
- On 19 October 2021 the National Bank of Hungary increased the base rate by 15 bps to 1.8%.
- On 16 November 2021 the Monetary Council of the NBH hiked the base rate by 30 bps to 2.1%. The Deputy Governor of NBH stressed after the Monetary Council meeting that the NBH is ready to set the rate of the 1-week central bank deposit above the level of the base rate already from 18 November. Accordingly, on 18 November the NBH raised the rate of the 1-week deposit facility to 2.5%, and the central bank accepted all offers at the tender. Consequently, the 1-week deposit has become the effective rate for the banking sector determining the marginal asset yields.
- On its weekly one-week deposit tender on 25 November 2021 the NBH offered an interest rate of 2.9%.
- On 30 November 2021 the NBH's Monetary Council widened the interest rate corridor and also decided to make it asymmetric. Accordingly, the lower bound of the corridor was raised by 45 bps and the upper one by 105 bps.
- On 2 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.1%.
- On 9 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.3%.
- On 14 December 2021 the NBH's Monetary Council raised the base rate by 30 bps to 2.4% and made a decision to phase out both the Bond Funding for Growth programme and the government bond purchase programme.
- On 16 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 30 bps to 3.6%.
- Mr. Viktor Orbán Prime Minister announced on 22 December 2021 that the government will introduce an interest rate cap for certain retail mortgage loans (for example whose pricing is linked to a reference rate, but the legislation does not apply to those with longer fixation periods) for the period between 1 January and 30 June 2022. Accordingly, the affected mortgages' reference rate cannot be higher than the relevant reference rate as at 27 October 2021. Furthermore, banks had to inform their borrowers about the interest rate risk and offer amendments to the contract until 31 January 2022. Details were laid down by Government Decree 782/2021 (XII. 24.) and Decree 1/2022 (I. 3.) by the Prime Minister's Office.
- On 23 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 3.8%.

NOTE 4: COVID-19 (in HUF mn) [continued]

- In its release published on 27 December 2021 the NBH said that from 1 January 2022 Hungarian credit institutions can pay dividends and buy back shares with shareholder remuneration purposes again. Thus, the NBH did not extend these restrictions in line with the similar step taken by the ECB at the end of September.
- On 30 December 2021 the NBH hiked the rate of the 1-week central bank deposit by 20 bps to 4.0%.
- Against the initially planned 2 pps social security contribution cut effective from July 2022, the government reduced employers' taxes by 4 pps already from 1 January 2022 (the 1.5% vocational training contribution was abolished and the social contribution taxes were cut by 2.5 pps).
- On 25 January 2022 the NBH hiked the base rate by 50 bps to 2.9%.
- On 27 January 2022 the NBH hiked the rate of the 1-week central bank deposit by 30 bps to 4.3%.
- On 15 February 2022 the CSO revealed the final GDP growth figures: accordingly, in 4Q 2021 the quarterly expansion of 2.1% was stronger than expected, lifting the annual growth rate to 7.1% in 2021 as a whole (seasonally and working day adjusted). Mr. Mihály Varga (Minister of Finance) announced that the government expects 5.9% growth for 2022.

Interest rate cap

For the period between 1 January and 30 June 2022 the government introduced an interest rate cap for variable-rate retail mortgage loans, and with its decision announced on 18 February, for housing purposes financial leasing contracts, too. Accordingly, the affected exposures' reference rate cannot be higher than the relevant reference rate as at 27 October 2021.

The modification loss related to the interest rate cap for variable rate mortgage loans announced on 22 December 2021 was recognized in the Mortgage Bank's 2021 financial accounts. The extension of the interest rate cap to housing purposes financial leasing contracts does not have a significant negative effect.

Moratorium one-off effect

In Hungary the first phase of the moratorium on loan payments was effective from 19 March 2020 to 31 December 2020. At the end of 2020 the moratorium was extended in unchanged form for the period between 1 January 2021 and 30 June 2021. Furthermore, according to Government Decree No. 317/2021. (VI. 9.) released on 9 June 2021 the payment moratorium was extended with unchanged conditions until 30 September 2021. Pursuant to Government Decree 536/2021. (IX. 15.) published on 15 September, the Government decided to extend the debt repayment moratorium: the blanket moratorium was extended by an additional month, until the end of October, in an unchanged form. Furthermore, from the beginning of November 2021 until 30 June 2022 only the eligible borrowers can participate in the moratorium provided that they submitted a request to their banks about their intention to stay.

During the term of the moratorium OTP Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues.

Loan volumes under the Hungarian payment holiday followed a declining trend till the end of October 2021, then from November the participation dropped materially due to the changes to the structure. At the end of 2021 the total household and corporate exposures remaining under the moratorium comprised HUF 119 billion at OTP Mortgage, which made up 7.6% of the total gross loan portfolio of those two entities.

Participation in COVID moratorium from total loan portfolio at 31 December 2021

	Current volume in moratorium (in HUF million)	Current participation ratio
OTP Mortgage Bank	119,301	7,6%

Participation in COVID moratorium as at 31 December 2020

	Current volume in moratorium (in HUF million)	Current participation ratio
OTP Mortgage Bank	677,341	50.4%

NOTE 4: COVID-19 (in HUF mn) [continued]

Financial assets modified during the year ended 31 December 2021 related to covid moratorium

Modification due to prolongation of deadline of covid moratoria till 30 September

Gross carrying amount before modification	491,821
Modification loss due to covid moratoria	(1,446)
Gross carrying amount after modification	**490,375**
Loss allowance before modification	(10,554)
Net amortised cost after modification	**479,821**

Modification due to prolongation of deadline of covid moratoria till 31 October

Gross carrying amount before modification	485,488
Modification loss due to covid moratoria	(679)
Gross carrying amount after modification	**484,809**
Loss allowance before modification	(10,679)
Net amortised cost after modification	**474,130**

Modification due to prolongation of deadline of covid moratoria till 30 June 2022

Participation in COVID moratorium from loans at amortised cost at 31 December 2021.

Gross carrying amount before modification	84,986
Modification loss due to covid moratoria	(1,204)
Gross carrying amount after modification	**83,782**
Loss allowance before modification	(7,264)
Net amortised cost after modification	**76,518**

On 24 December 2021 new regulation was issued on fixing of retail loan product's interest, under that interest rates of mortgage loans with variable interest shall be fixed at reference rates of 27 October 2021, predictably till 30 June 2022.

Gross carrying amount before modification	254,215
Modification loss due to covid moratoria	(2,694)
Gross carrying amount after modification	**251,521**
Loss allowance before modification	(7,692)
Net amortised cost after modification	**243,829**

Financial assets modified during the year ended 31 December 2020 related to covid moratorium

Gross carrying amount before modification	431,039
Modification loss due to covid moratoria	(13,387)
Gross carrying amount after modification	**417,652**
Loss allowance before modification	(9,584)
Net amortised cost after modification	**408,068**

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

Amounts due from banks and balances with the NBH:

	2021	2020
Within one year		
in HUF	14,595	5,390
in foreign currency	6	5
	14,601	5,395
Total	(33)	5,395
Loss allowance	14,568	
From this: amounts due from OTP Bank	14,601	3,386
Compulsory reserve	28	11
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,

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 (in HUF million)

	2021	2020
Within one year		
in HUF	9,523	9,735
Over one year		
in HUF	142,794	116,446
Subtotal	152,317	126,181
Impairment	(342)	(400)
Total	151,975	125,781
From this: amounts due from OTP Bank	477	1,306

Interest conditions on placements with other banks	2021	2020
Within one year		
in HUF	2.72%-3.65%	0.36%-0.75%
Over one year		
in foreign currency	4.35%-4.62%	1.45%-1.71%
Average interest of placements with other banks		
in HUF	4.26%	1.41%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2021	2020
Hungarian government bonds	16,037	18,273
Total	**16,037**	**18.273**

The whole portfolio was denominated in HUF as at 31 December 2021.

Interest conditions and the remaining maturity of securities at fair value through other comprehensive income can be analysed as follows:

	2021	2020
Over one year, fixed interest	15,559	17,832
Interest conditions of securities available for sale	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2021:

	2021	
	Amortized cost	**Net fair value**
Hungarian government bonds	16,497	15,599
Total	**16,497**	**15,599**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2020:

	2020	
	Amortized cost	**Net fair value**
Hungarian government bonds	16,905	17,832
Total	**16,905**	**17,832**

NOTE 8: LOANS (in HUF million)

Loans measured at fair value through profit or loss

	2021	2020
Within one year	29,449	23,039
Over one year	376,370	295,005
Loans measured at fair value through profit or loss total	**405,819**	**318,044**

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

	2021	2020
Within one year	99,370	91,291
Over one year	1,056,371	930,710
Loans gross total	**1,155,741**	**1,022,001**
Provision for impairment on loan losses	(19,451)	(20,262)
Total	**1,136,290**	**1,001,739**

An analysis of the loan portfolio by currency (%):

	2021	2020
In HUF	99.99%	99.98%
In foreign currency	0.01%	0.02%
Total	**100.00%**	**100.00%**

Interest rates of the loan portfolio mandatorily measured at fair value through profit or loss are as follows (%):

	2021	2020
Loans denominated in HUF	1.21% - 10.83%	0.77% - 12.83%
Average interest on loans denominated in HUF	4.34%	4.70%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	2021	2020
Loans denominated in HUF, with a maturity within one year	0.78%- 17.68%	0.79%- 21.47%
Loans denominated in HUF, with a maturity over one year	0.78%- 17.68%	0.79%- 21.47%
Loans denominated in foreign currency	1.74%- 6.87%	3.82%-8.65%
Average interest on loans denominated in HUF	5.51%	5.17%
Average interest on loans denominated in foreign currency	4.66%	4.93%

NOTE 8: LOANS (in HUF million) [continued]

An analysis of the change in the loss allowance on loans at amortised cost is as follows:

	2021	2020
Balance as at 1 January	**20,262**	**4,504**
Provision for the period	24,980	23,159
Release of provision	(25,329)	(7,252)
Other movement	(20)	(45)
Partial write-off	(442)	(104)
Closing balance	**19,451**	**20,262**

A significant part of the loans above are mortgage loans for purchasing real estate or home equity loans. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	2021	2020
Loss allowance on placements with other banks	(25)	261
Loss allowance on loans at amortised cost	(887)	16,000
Total	**(912)**	**16,261**

The Bank sells non-performing non subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd. In addition, the Bank sells non-performing subsidised loans without recourse at estimated fair value to OTP Bank Plc.

NOTE 9: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2021	2020
Investments in subsidiaries		
OTP Ingatlanpont Ltd.	1,867	1,867
OTP Pénzügyi Pont Llc.	1,196	1,196
Total	**3,063**	**3,063**

The OTP Mortgage Bank acquired a 100% shareholding in OTP Ingatlanpont Kft. in December 2016, the Mortgage Bank also made a capital increase in Ingatlanpont Kft. The acquisition was registered by the Court of Registration in January 2017.

The OTP Mortgage Bank acquired a 100% shareholding in OTP Pénzügyi Pont Zrt. in July 2019, The Mortgage Bank also made a capital increase in Pénzügyi Pont Zrt. The acquisition was registered by the Court of Registration in October 2019.

NOTE 10: SECURITIES AT AMORTISED COST (in HUF million)

	2021	2020
Government bonds	175,454	108,628
Subtotal	**175,454**	**108,628**
Provision for impairment	(329)	(173)
Total	**175,125**	**108,455**

An analysis of change in the loss allowance on securities at amortised cost:

	2021	2020
Balance as at 1 January	**173**	**-**
Loss allowance	235	366
Release of loss allowance	(79)	(193)
Closing balance	**329**	**173**

The distribution of the securities at amortised cost by currency (%):

	2021	2020
Interest rates on securities at amortised cost	1% - 5%	1% - 3%
Average interest on securities at amortised cost denominated in HUF	2.50%	2.13%

Interest conditions and the remaining maturities of securities at amortised cost can be analysed as follows:

	2021	2020
Within one year		
fixed interest	27,083	-
Over one year:		
fixed interest	146,872	107,982
Total	**173,955**	**107,982**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For the year ended 31 December 2021

Cost	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January 2021	**1,960**	**112**	**-**	**323**	**2,395**
Additions	115	1	1	-	117
Disposals	(186)	(25)	(1)	-	(212)
Balance as at 31 December 2021	**1 889**	**88**	**-**	**323**	**2 300**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2021	**1,768**	**92**	**-**	**97**	**1,957**
Charge for the year	116	9	-	51	176
Disposals	(186)	(25)	-	-	(211)
Balance as at 31 December 2021	**1 698**	**76**	**-**	**148**	**1 922**
Net book value					
Balance as at 1 January 2021	**192**	**20**	**-**	**226**	**438**
Balance as at 31 December 2021	**191**	**12**	**-**	**175**	**378**

For the year ended 31 December 2020

Cost	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January 2020	**1,831**	**100**	**2**	**323**	**2,256**
Additions	274	12	9	-	295
Disposals	(145)	-	(11)	-	(156)
Balance as at 31 December 2020	**1,960**	**112**	**-**	**323**	**2,395**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2020	**1,647**	**80**	**-**	**47**	**1,774**
Charge for the year	121	12	-	50	183
Disposals	-	-	-	-	-
Balance as at 31 December 2020	**1,768**	**92**	**-**	**97**	**1,957**
Net book value					
Balance as at 1 January 2020	**184**	**20**	**2**	**276**	**482**
Balance as at 31 December 2020	**192**	**20**	**-**	**226**	**438**

NOTE 12: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)

	2021	2020
Interest rate swaps designated as fair value hedge	-	309
Interest rate swaps designated as cash flow hedge	5,397	133
Total	**5,397**	**442**

NOTE 13: OTHER ASSETS (in HUF million)

	2021	2020
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	709	550
Prepayments and accrued income	96	64
Trade receivables	176	88
Receivables from suppliers	9	8
Other	152	324
Loss allowance	(41)	(23)
Other financial assets total	**1,101**	**1,011**
Other non-financial assets		
Prepayments and accrued income	11	12
Receivable related to Hungarian Government subsidies	1.348	1,000
Current income tax receivable	1.616	3,005
Other	511	512
Provision for impairment on other assets	(6)	(5)
Other non-financial assets total	**3,480**	**4,524**
Total	**4,581**	**5,535**

An analysis of the movement in the loss allowance on other financial assets is as follows:

	2021	2020
Balance as at 1 January	23	9
Charge for the period	66	26
Release of loss allowance	(48)	(12)
Balance as at 31 December	**41**	**23**

An analysis of the movement in the loss allowance on other non-financial assets is as follows:

	2021	2020
Balance as at 1 January	5	1
Charge for the period	8	7
Release of provision	(7)	(3)
Balance as at 31 December	**6**	**5**

NOTE 14: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2021	2020
Within one year		
In HUF	508,333	545,506
In EUR	11	11
In JPY	198	289
In CHF	7	10
Total in foreign currency	216	310
	508,549	**545,816**
Over one year		
in HUF	514,223	147,090
	1,022,772	**692,906**
Total	**1,022,772**	**692,906**
From this: amounts due to OTP Bank	894,390	585,732

Interest conditions on amounts due to OTP Bank and other banks

	2021	2020
Within one year		
In HUF	3.2%-3.79%	0%-0.75%
In foreign currency	(0.58)% -0.36%	(0.5)% -0.05%
Over one year		
In HUF	0%-4.51%	0.6%-1.01%

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2021	2020
Within one year:		
In HUF	8,805	130,430
Over one year		
In HUF	763,206	677,083
Total	**772,011**	**807,513**
Issued mortgage bonds during the period (nominal value)	95,020	310,100
Mortgage bonds became due or repurchased during the period (nominal value)	122,100	70,000

Interest conditions on issued securities

	2021	2020
In HUF	1.25%-11.00%	1.05%-11.00%

A reconciliation of the face value and the amortized cost is as follows:

	2021	2020
Nominal value of the issued securities	771,120	798,200
Unamortized premiums	(6,161)	246
Fair value hedge adjustment	(1,753)	384
Amortized cost	**763,206**	**798,830**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, the property register data and the normal and additional collateral in the coverage register.

There was a maturing mortgage bond in amount of HUF 122,1 billion. billion. Mortgage bonds were issued in amount of HUF 95,02 billion in 2020.

Issued securities denominated in HUF as at 31 December 2021 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75%	fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35%	variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05%	variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50%	fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00%	fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50%	fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25%	fix	not hedged
OJB2031/I	2021/08/18	2031/10/22	95,020	88,429	2,5%	fix	not hedged
Total issued securities			**771,120**	**764,959**			

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in HUF as at 31 December 2020 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2021/I	2017/02/15	2021/10/27	122,100	122,215	2.00%	fix	not hedged
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75%	fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35%	variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05%	variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50%	fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00%	fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50%	fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25%	fix	not hedged
Total issued securities			**798,200**	**807,513**			

NOTE 16: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2021	2020
Interest rate swap designated as fair value hedge	1,804	-
Interest rate swap designated as cash flow hedge	-	780
	1,804	**780**

NOTE 17: OTHER LIABILITIES AND PROVISIONS (in HUF million)

	2021	2020 Reclassified
Other financial liabilities		
Accounts payable	3,636	1,865
Accrued expenses	502	617
Other	2,816	2,560
Other financial liabilities total	**6,954**	**5,042**
Other non-financial liabilities		
Current income tax payable	424	383
Social contribution	61	56
Accrued expenses	85	95
Settlement accounts	(2)	5
Other	71	45
Other non-financial liabilities total	**639**	**584**
Other liabilities total	**7,593**	**5,626**

NOTE 17: OTHER LIABILITIES AND PROVISIONS (in HUF million) [continued]

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	2021	2020
Provision for losses on other off-balance sheet commitments and contingent liabilities	779	732
Provisions in accordance with IFRS 9	**779**	**732**
Provision for litigation	25	42
Provisions in accordance with IAS 37	**25**	**42**
Total	**804**	**774**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IFRS 9 can be summarized as follows:

	2021	2020
Opening balance	732	518
Provision for the period	2,643	2,563
Release of provision for the period	(2,596)	(2,349)
Closing balance	**779**	**732**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IAS 37 can be summarized as follows:

	2021	2020
Opening balance	42	279
Provision for the period	3,799	12,438
Release of provision	(3,816)	(12,675)
Closing balance	**25**	**42**

NOTE 18: SHARE CAPITAL (in HUF million)

All 27,000 shares are ordinary shares with a nominal value of HUF 100.000 and are authorised and fully paid.

	2021	2020
Share capital (in HUF million)	37,000	37,000

The nominal value of the shares is HUF 100 thousand per share. 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 19: RETAINED EARNINGS AND RESERVES (in HUF million)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") effective from annual periods beginning on 1 January 2017 financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

In 2021, the Bank did not pay dividend based on the earlier NBH warnings issued due to covid moratoria. In 2022 dividend of HUF 18 billion are expected to be proposed by the Management.

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.

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 a 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 Bank that are not distributed to shareholders as dividends.

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.

Balance as at 1 January, 2021	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**42,102**	**-**	**-**	**79,102**
Other comprehensive income	-	-	(75)	75	-	-
Net profit for the year	-	-	5,365	-	(5,365)	-
General reserve	-	18,109	(18,109)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**18,109**	**29,283**	**75**	**(5,365)**	**79,102**

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2021:

Balance as at 31 December, 2021	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**70,680**	**-**	**-**	**107,680**
Other comprehensive income	-	-	(4,991)	4,991	-	-
Net loss for the year	-	-	(23,556)	-	23,556	-
General reserve	-	20,464	(20,464)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**20,464**	**21,669**	**4,991**	**23,556**	**107,680**

	2021	2020
Retained earnings	70,680	42,102
Net loss for the year	23,556	(5,365)
Untied retained earnings	**94,236**	**36,737**

	2021	2020
Retained earnings	23,499	31,219
Other reserves	20,464	18,109
Fair value of financial instruments measured at fair value through other comprehensive income	(787)	874
Share-based payment reserve	95	64
Fair value of derivative financial instruments designated as cash-flow hedge	3,853	(2,799)
Net (loss) / profit for the year	23,556	(5,365)
Retained earnings and other reserves	**70,680**	**42,102**

Fair value adjustment of securities at fair value through other comprehensive income:

	2021	2020
Balance as at 1 January	844	1,072
Change of fair value correction	(1,825)	(251)
Deferred tax related to change of fair value correction	163	23
Closing balance	**(818)**	**844**

Expected credit loss on securities at fair value through other comprehensive income:

	2021	2020
Balance as at 1 January	29	18
Increase of loss allowance	1	11
Closing balance	**30**	**29**

NOTE 20: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2021 6 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 21 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships
(vi) loans granted under the Green Home Program of the MNB-funded Growth Loan Program from 2021.

Relevant elements of the currently available interest subsidised loans.

Dedicated beneficiaries can benefit from the Government Decree, the purpose of the loan:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
  - purchasing or building of new property
  - purchasing or modernisation or enlargement of used property

- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million. Interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Support for a loan applied for by families with several children lasts until the end of the term, but up to a maximum of 25 years, except for the renovation loan, which is supported for 10 years. The State will provide support for the payment of interest on a loan taken out for the investment of real estate in a preferred small town during the first twenty-five years of the term.

The MNB NHP ZOP loan provided for the implementation of environmentally friendly properties can only be used for the construction or purchase of an energy-efficient new home, for which the MNB provides a favorable interest rate until the end of the loan, but for a maximum of 25 years. In the case of families with several children, the state provides additional interest subsidies, so that the loan becomes interest-free for them during the subsidy period.

Demand for subsidized loans increased during the year. Of these, OTP Mortgage Bank disbursed a total of HUF 127,2 billion in 2021, which is 36.6% more than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 456,2 billion, 16.6% more than a year earlier (nominal gross data).

NOTE 21: INTEREST INCOME AND EXPENSES (in HUF million)

	2021	2020
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	53,167	46,370
FVOCI securities	415	426
Placements with other banks	2,959	1,881
Amounts due from banks and balances with National Bank of Hungary	142	61
Securities at amortised cost	2,087	763
Interest subsidy on housing loans financed by mortgage bonds	5,753	7,109
Subtotal	**64,523**	**56,610**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	15,711	13,512
Swap and forward deals related to Placements with other banks	(509)	(421)
Subtotal	**15,202**	**13,091**
Interest income total	**79,725**	**69,701**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	15,549	7,674
Leasing liabilities	-	7
Loans	6	-
Liabilities from issued securities	28,242	27,057
Financial assets	19	-
Subtotal	**43,816**	**34,738**

NOTE 22: RISK COST (in HUF million)

		2021	2020
Loss allowance of loans at amortised cost			
	Loss allowance	(24,539)	(23,056)
	Release of loss allowance	25,426	7,245
	Total	**887**	**(15,811)**
Loss allowance of placements with other banks			
	Loss allowance	(549)	(354)
	Release of loss allowance	574	93
	Total	**25**	**(261)**
Loss allowance of FVOCI securities			
	Loss allowance	(15)	(25)
	Release of loss allowance	14	14
	Total	**(1)**	**(11)**
Loss allowance of securities at amortised cost			
	Loss allowance	(235)	(366)
	Release of loss allowance	79	193
	Total	**(156)**	**(173)**
Provision on loan commitments and financial guarantees			
	Provision for the period	(2,643)	(2,563)
	Release of provision	2,596	2,349
	Total	**(47)**	**(214)**
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(986)	(2,851)
	Loss allowance	-	-
	Release of loss allowance	**(986)**	**(2,851)**
	Total		
Net loss allowance / (release of loss allowance) total		**(278)**	**(19,321)**

NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2021	2020
Fees and commissions relating to lending	2,385	1,506
Other	539	284
Total	**2,924**	**1,790**

Contract balances

Receivables, which are included in 'other assets'	96	64

Expense from fees and commissions

	2021	2020
Fees and commissions relating to issued securities	332	293
Fees and commissions relating to lending	4,710	5,618
Others	1,937	391
Total	**6,979**	**6,302**
Net loss from fees and commissions	**(4,055)**	**(4,512)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

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
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.	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 special procedure fee, account rent fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly 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. Fees for ad hoc services are charged when the transaction takes places.

NOTE 24: GAINS AND LOSSES (in HUF mn)

	2021	2020
Losses arising from derecognition of financial assets measured at amortised cost		
Gain from loans	-	192
Loss from loans	(23)	(381)
	(23)	**(189)**

	2021	2020
Foreign exchange losses		
Loss from foreign exchange	(1)	2
Margin losses	(1)	(1)
Total	**(2)**	**1**

	2021	2020
Losses on financial instruments at fair value through profit or loss		
Gains on loans mandatorily measured at fair value through profit or loss	24,523	1,347
Losses on loans mandatorily measured at fair value through profit or loss	(19,582)	-(2,363)
Total	**4,941**	**1,016**
Total gains and losses from operating income (without other operating income)	**4,939**	**(1,017)**

NOTE 25: **NET OTHER OPERATING INCOME AND EXPENSES OTHER ADMINISTRATIVE EXPENSES (in HUF million)**

	2021	2020
Net other operating income		
Other direct costs of mortgage bond raising	-	(774)
Other	77	169
Total	**(77)**	**(605)**
Other operating expense		
Provisions for future liabilities	2	219
Non- repayable assets contributed	151	(2)
Other	10	(11)
Total	**163**	**206**
Personnel expenses		
Wages	(537)	(502)
Taxes related to personnel expenses	(88)	(89)
Other personnel expenses	(59)	(64)
Total	**(684)**	**(655)**
Depreciation and amortization	**(176)**	**(183)**
Taxes, other than income tax:		
Bank tax	*(2,236)*	*(2,161)*
Other taxes	*(2)*	*(1,041)*
Total taxes, other than income tax	**(2,238)**	**(3,202)**
Services	(273)	(554)
Professional fees	(1,112)	(687)
Rental fees	(8)	(7)
Material type expenses	(5)	(5)
Administration expenses	-	(15)
Advertising	1	-
Total	**(3,637)**	**(4,470)**

The table below contains the detailing of the fees for audit services:

	2021	2020
Annual audit	36,07	49,6
Total	**36,07**	**49,6**

NOTE 26: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2021	2020
Key executives (Managing Director and Deputies)	68	68
Total	**68**	**68**

The remunerations of key management personnel include only short-term benefits.

NOTE 27: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 9% of taxable income, local business tax at a rate of 2% of taxable revenue, innovation contribute at a rate of 0.3% of taxable revenue.

A reconciliation of the total income tax charge for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020 Reclassified
Current tax expense	2,165	1,041
Deferred tax (benefit)	-	-
Total income tax expense	**2,165**	**1,041**

A reconciliation of the deferred tax liability as at 31 December 2021 and 2020 is as follows:

	2021	2020
Balance as at 1 January	**(86)**	**(108)**
Recognized in other comprehensive income as tax benefit	164	22
Deferred tax benefit	-	-
Balance as at 31 December	**78**	**(86)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2021 and 2020 is as follows:

	2021	2020
Fair value adjustment for at fair value through other comprehensive income financial assets	81	(83)
Provision for untaken leave	1	-
Difference in depreciation and amortization	(4)	(3)
Deferred tax assets / liabilities	**78**	**(86)**
Net deferred tax assets / liabilities	**78**	**(86)**

A reconciliation of the effective tax rate as at 31 December 2021 and 2020 is as follows:

	2021	2020
Profit before income tax	25,721	(5,365)
Income tax at statutory tax rate	2,315	-
Income tax adjustments due to permanent differences are as follows:		
Use of tax	(1,135)	-
Other	(115)	-
	1,065	-
Income tax		
Effective tax-rate	*4.14%*	-

NOTE 28: LEASE (in HUF million)

The Bank as a lessee:

Amounts recognised at initial application	**1 January 2019**
Lease liability	272
Prepaid or accrued lease payments as at 31 December 2018	-
Right-of-use asset	272
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: ~2.9375 %.

Amounts recognised in profit and loss	**2021**	**2020**
Interest expense on lease liabilities	6	7
Expense relating to short-term leases	8	7

Leasing liabilities by maturities:

	2021	**2020**
Within one year	51	55
Over one year	131	177
Total	**182**	**232**

An analysis of movement in the carrying amount of right-of-use assets by category is as follows:

Gross carrying amount	**Right of uses of real estate**	
	2021	**2020**
Balance as at 1 January	323	323
Change due to revaluation and modification	-	-
Closing balance	**323**	**323**
Depreciation		
Balance as at 1 January	97	47
Depreciation charge	51	50
Closing balance	**148**	**97**
Net carrying amount	**175**	**226**

NOTE 29: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

	2021	2020
Net profit for the year (in HUF million)	23,556	(5.365)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370,000	370.000
EPS (in HUF) basic and diluted	**(63,665)**	**(14,500)**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million)

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

30.1. 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.

30.1.1. 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.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [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 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 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2021:

		Gross carrying amount									
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	14,568	14,601	-	-	-	14,601	33	-	-	-	33
Placements with other banks, net of allowance for placement losses	151,975	152,317	-	-	-	152,317	342	-	-	-	342
Mortgage loans	1,133,512	861,632	252,822	37,809	497	1,152,760	2,279	7,525	9,398	46	19,248
Corporate loans	2,778	1,259	1,499	223	-	2,981	5	134	64	-	203
Loans at amortized cost	1,136,290	862,891	254,321	38,032	497	1,155,741	2,284	7,659	9,462	46	19,451
FVOCI securities[1]	16,037	16,037	-	-	-	16,037	30	-	-	-	30
Securities at amortised cost	175,125	175,454	-	-	-	175,454	329	-	-	-	329
Other financial assets	1,101	1,084	50	8	-	1,142	1	38	2	-	41
Other non-financial assets	3,480	3,486	-	-	-	3,486	6	-	-	-	6
Other assets	4,581	4,570	50	8	-	4,628	7	38	2	-	47
Financial assets total	1,498,576	1,225,870	254,371	38,040	497	1,518,778	3,025	7,697	9,464	46	20,232
Off balance sheet items	61,914	56,939	5,637	117	-	62,693	417	335	27	-	779

[1] FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position (Please see in Note 7.). Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2020:

		Gross carrying amount									
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	5,395	5,395	-	-	-	5,395	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	125,781	126,181	-	-	-	126,181	400	-	-	-	400
Mortgage loans	998,358	781,191	219,138	17,744	476	1,018,549	2,289	14,075	3,761	66	20,191
Corporate loans	3,381	3,133	277	42	-	3,452	15	45	11	-	71
Loans at amortized cost	1,001,739	784,324	219,415	17,786	476	1,022,001	2,304	14,120	3,772	66	20,262
FVOCI securities[1]	18,273	18,273	-	-	-	18,273	29	-	-	-	29
Securities at amortised cost	108,455	108,628	-	-	-	108,628	173	-	-	-	173
Other financial assets	1,011	1,000	30	4	-	1,034	-	22	1	-	23
Other non-financial assets	4,524	4,529	-	-	-	4,529	5	-	-	-	5
Other assets	5,535	5,529	30	4	-	5,563	5	22	1	-	28
Financial assets total	**1,265,178**	**1 048,330**	**219,445**	**17,790**	**476**	**1,286,041**	**2,911**	**14,142**	**3,773**	**66**	**20,892**
Off balance sheet items	40,052	35,108	5,405	271	-	40,784	162	523	47	-	732

[1] FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position (Please see in Note 7.). Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Loans at amortised cost

2021.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2021 IFRS 9	**2,303**	**14,121**	**3,772**	**66**	**20,262**
Transfer to Stage 1	5,158	(5,119)	(39)	-	-
Transfer to Stage 2	(455)	794	(339)	-	-
Transfer to Stage 3	(42)	(850)	892	-	-
Net remeasurement of loss allowance	(5,822)	(679)	5,400	(17)	(1,118)
New financial assets originated or purchased	1,323	541	59	-	1,923
Financial assets derecognised (other than write-offs)	(181)	(1,149)	(283)	(3)	(1,616)
Unwind of discount	(7)	(3)	-	-	(10)
Write-offs	7	3	-	-	10
Loss allowance as at 31 December 2021	**2.284**	**7.659**	**9.462**	**46**	**19.451**

Loans at amortised cost

2020.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2020 IFRS 9	**2,145**	**862**	**1,478**	**18**	**4,503**
Transfer to Stage 1	8	(68)	(18)	-	(78)
Transfer to Stage 2	(529)	11,783	(74)	-	11,180
Transfer to Stage 3	(8)	(102)	965	-	855
Net remeasurement of loss allowance	269	1,274	1,495	50	3,088
New financial assets originated or purchased	671	440	110	-	1,221
Financial assets derecognised (other than write-offs)	(244)	(68)	(184)	(2)	(498)
Unwind of discount	(9)	-	103	1	95
Write-offs	-	-	(103)	(1)	(104)
Loss allowance as at 31 December 2020	**2,303**	**14,121**	**3,772**	**66**	**20,262**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Placements with other banks, net of allowance for placement losses

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	400	400
Financial assets derecognised (other than write-offs)	(56)	(56)
New financial assets originated or purchased	1	1
Net remeasurement of loss allowance	(3)	(3)
Loss allowance as at 31 December 2021	**342**	**342**

Placements with other banks, net of allowance for placement losses

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	139	139
Financial assets derecognised (other than write-offs)	400	400
Net remeasurement of loss allowance	(139)	(139)
Loss allowance as at 31 December 2020	**400**	**400**

FVOCI Securities

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	29	29
New financial assets originated or purchased	1	1
Loss allowance as at 31 December 202	**30**	**30**

FVOCI Securities

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	**18**	**18**
New financial assets originated or purchased	29	29
Financial assets derecognised (other than write-offs)	(18)	(18)
Loss allowance as at 31 December 2020	**29**	**29**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Securities at amortised cost

2021.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	173	173
Financial assets derecognised (other than write-offs)	34	34
New financial assets originated or purchased	122	122
Loss allowance as at 31 December 2021	**329**	**329**

Securities at amortised cost

2020.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2020	-	-
New financial assets originated or purchased	173	173
Loss allowance as at 31 December 2020	**173**	**173**

Off Balance sheet items

2021.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2021	**162**	**523**	**47**	**732**
Transfer from Stage 1 to Stage 2	401	(372)	(29)	-
Transfer from Stage 1 to Stage 3	(11)	24	(13)	-
Transfer from Stage 2 to Stage 1	-	(7)	7	-
Net remeasurement of loss allowance	(506)	(103)	5	(604)
New financial assets originated or purchased	385	286	11	682
Financial assets derecognised (other than write-offs)	(14)	(16)	(1)	(31)
Loss allowance as at 31 December 2021	**417**	**335**	**27**	**779**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Off Balance sheet items

2020.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2020	**248**	**210**	**60**	**518**
Transfer from Stage 1 to Stage 2	1	(55)	(7)	(61)
Transfer from Stage 1 to Stage 3	(20)	67	(16)	31
Transfer from Stage 2 to Stage 1	(3)	(2)	19	14
Net remeasurement of loss allowance	(191)	(89)	(24)	(304)
New financial assets originated or purchased	141	395	24	560
Financial assets derecognised (other than write-offs)	(14)	(3)	(9)	(26)
Loss allowance as at 31 December 2020	**162**	**523**	**47**	**732**

Loan portfolio by internal ratings

	Gross carrying amount				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	746,421	152,521	-	98	899,040
Medium grade (5-7)	111,043	79,949	-	61	191,053
Low grade (8-9)	5,427	21,851	-	52	27,330
Non performing	-	-	38,032	286	38,318
Total	**862,891**	**254,321**	**38,032**	**497**	**1,155,741**

	Accumulated loss allowance				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	1,723	4,018	-	3	5,744
Medium grade (5-7)	527	2,556	-	3	3,086
Low grade (8-9)	35	1,085	-	1	1,121
Non performing	-	-	9,462	39	9,501
Total	**2,284**	**7,659**	**9,462**	**46**	**19,451**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

Loan portfolio classification by economic activities

Gross loan at amortized cost and finance lease receivable portfolio by economic activities	2021	2020
Retail	1,152,611	1,018,473
Agriculture, forestry and fishing	3,106	3,500
Other services	24	28
Total gross loans and finance lease receivable	**1,155,741**	**1,022,001**

Loss allowance on loans at amortized cost and finance lease receivable by economic activities	2021	2020
Retail	(19,229)	(20,187)
Agriculture, forestry and fishing	(217)	(73)
Other services	(5)	(2)
Total loss allowance on loans and finance lease receivable	**(19,451)**	**(20,262)**

Collateral

The collateral value held by the Bank by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2021	2020
Government guarantees	772,311	715,797
Deposit, securities	20,733	21,111
Mortgage	4,271,846	3,658,702
Total	**5,064,890**	**4,395,610**

The collateral value held by the Bank by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2021	2020
Government guarantees	17.143	20,728
Deposit, securities	14.488	13,640
Mortgage	1.443.303	1,231,471
Total	**1,474,934**	**1,265,839**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio:

The collateral value of non-performing loans at amortized cost

2021	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	38,132	(9,436)	28,696	106,293
Corporate loans	248	(71)	177	991
Total	**38,380**	**(9,507)**	**28,873**	**107,284**

The collateral value of loans measured at fair value through profit or loss

2021	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	6,973	(1,669)	5,304	18,707
Corporate loans	-	-	-	-
Total	**6,973**	**(1,669)**	**5,304**	**18,707**

The collateral value of non-performing loans at amortized cost

2020	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	18,003	(3,805)	14,198	54,641
Corporate loans	42	(11)	31	375
Total	**18,045**	**(3,816)**	**14,229**	**55,016**

The collateral value of loans measured at fair value through profit or loss

2020	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	2,780	(465)	2,315	7,968
Corporate loans	-	-	-	-
Total	**2,780**	**(465)**	**2,315**	**7,968**

Restructured loans

	2021		**2020**	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	211,839	(5,992)	3,845	(459)
Corporate loans	562	(37)	-	-
SME loans	918	(97)	-	-
Total	**213,318**	**(6,126)**	**3,845**	**(459)**

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

The significant increase of the performing forborne loan volume is due to the forborne classification rules set by the MNB executive circulars of 21 January 2021 and 25 November 2021 for loans participating in phase 2 and phase 3 of the moratoria. The loan volume classified as performing forborne exclusively due to moratoria participation is HUF 290 billion. For the affected portfolios the earliest possible exit from the forborne status is 6 months after the exit from moratorium for retail and 2 years after the exit from moratorium for corporate exposures.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

At fair value through other comprehensive income securities as at 31 December 2021

	Baa2		Not rated		Total
Hungarian government bonds	16,037	100.00%	-	0.00%	16,037
Total	**16,037**	**100.00%**	**-**	**0.00%**	**16,037**

Securities at amortised cost as at 31 December 2021

	Baa2		Not rated		Total
Hungarian government bonds	175,125	100.00%	-	0.00%	175,125
Total	**175,125**	**100.00%**	**-**	**0.00%**	**175,125**

30.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management.

30.2.1. Interest rate sensitivity analysis[1]

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 based on the assumption that 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 are 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.
- In case of assets and liabilities were the interest rate is lower than 0.3% we assumed the interest rate to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation were prepared by assuming two scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually by 100 bps over the next year(scenario 1)
2. HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one year period beginning with January 1, 20212 would be increased by HUF 1,864 million (scenario 1) and increased by HUF 930 million (scenario 2) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		Effects to the net interest income in one year period	
		2021	2020
HUF	(0.1%) parallel shift	351	272
HUF	0.1% parallel shift	(351)	(275)
Total		**(351)**	**(275)**

[1] Quantitative data on interest rate risk are shown in Note 26

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.2.2. Foreign exchange rate sensitivity analysis[1]

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was done based on the assumption, that the price changes happens as a one off event, and it takes neither the possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets, into consideration.

The total net open position of OTP Mortgage Bank was 1 million HUF short on 31th December 2021 (compared to 1 million HUF as of 31/12/2019), which consisted of EUR and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

30.3. 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 shareholder's 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 process, 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 - by including the owner of the Bank.

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 2021 as well as in 2020.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2021 and 2020. 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).

In HUF million	2021 Basel III	2020 Basel III
Core capital	95,972	96,710
Supplementary capital	-	-
Regulatory capital	**95,972**	**96,710**
Credit risk capital requirement	56,741	47,560
Market risk capital requirement	-	-
Operational risk capital requirement	1,724	1,487
Total required regulatory capital	**58,465**	**49,047**
Surplus capital	**37,507**	**47,663**
Capital ratio	**13.1%**	**15.8%**

[1] Quantitative data on foreign exchange rate risk are shown in Note 25

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Capital adequacy [continued]

The positive components of the Core capital are the following:

Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

NOTE 31: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

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.

Off balance sheet items

	2021	2020
Current litigations	755	1,144
Loan facilities	62,693	40,783
Contingent and future liabilities total	**63,448**	**41,927**

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 17 million and HUF 42 million as at 31 December 2021 and 2020, respectively.

Commitments to extend credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. 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.

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 32: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

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. In case of foreign subsidiaries virtual share based payment was made uniformly from 2021 (in case of payments related to 2021).

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.

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 6,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 12,000.

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.

The parameters for the share-based payment relating to ongoing years 2016-2020 by Supervisory Board for periods of each year as follows

	The year 2018	The year 2019	The year 2020	The year 2021	Total
JZB	1,12	3,7	5,95	20,57	31,34

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2021

	CHF	EUR	JPY	Total
Assets	9	8	208	225
Liabilities	(44)	(7)	(198)	(249)
Net position	**(35)**	**1**	**10**	**(24)**

As at 31 December 2020

	CHF	EUR	JPY	Total
Assets	9	13	280	302
Liabilities	(10)	(44)	(289)	(343)
Net position	**(1)**	**(31)**	**(9)**	**(41)**

Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 34: RELATED PARTY TRANSACTIONS (in HUF million)

34.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

34.1.1. Outstanding balances in the Separate Statement of Financial Position related to OTP Bank Plc.

The Bank had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2021**	**2020**
Cash, amounts due from OTP Bank	14,568	3,386
Placements with OTP Bank	477	1,306
Accrued receivables	40	25

Liabilities	**2021**	**2020**
Amounts due to OTP Bank and other banks	(894,390)	(585,732)
Face value of issued mortgage bonds held by OTP Bank	(150,246)	(221,333)
Accrued interest expense due to OTP Bank	(3,274)	(3,345)
Other liabilities due to OTP Bank	(191)	(1,602)

34.1.2. Transactions in the Separate Statement of Profit or Loss related to OTP Bank Plc.

	2021	**2020**
Interest income	1,190	1,223
Interest expense	(9,765)	(3,763)
Account handling fees paid to OTP Bank	4,611	2,933
Other fees and commissions relating to lending received from OTP Bank	877	807
of which: Revenue from the value appraisal activity from OTP Bank	876	*798*
Other fees and commissions relating to lending paid to OTP Bank	(3,158)	(4,457)

34.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 3,723 million as at 31 December 2021. These loans were covered by HUF 6,754 million mortgages, which can be categorized into 3 different interest periods:

5 years: 1.02% - 12.78%
10 years: 2.35% - 4.74%
20 years: 2.49% - 4.24%

The APR[1] rate at the time the loan is disbursed is based on current market rates.

[1] Annual Percentage Rate

NOTE 34: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

34.2. Outstanding balances related to key management personnel [continued]

Compensations

	2021	2020
Share-based payment	31	32
Long-term employee benefits (on the basis of IAS 19)	24	7
Total	**55**	**39**

34.3. Outstanding balances/Transactions related to other related party[1]

34.3.1. Transactions related to OTP Building Society Ltd.

	2021	2020
Face value of issued mortgage bonds held by OTP Building Society Ltd.	64,696	77,646
Accrued interest expense	(1,939)	(1,972)

34.3.2. Transactions of the OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2021	2020
Book value of non-performing loans sold to OTP Faktoring Ltd.	8	350
Selling price of the non-performing loans related to OTP Faktoring Ltd.	8	278

34.3.3. Transactions related to Merkantil Bank Ltd.

	2021	2020
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	96,665	49,700
Accrued interest expense	(2,223)	(2,150)

34.3.4. Further Outstanding balances/Transactions related to other related party

	2021	2020
Other liabilities due to other related party	-	(1,682)
Other operating income from other related party	1,700	162
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	629	531

Compensation of key management personnel is shown in Note 25.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

NOTE 35: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument can 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 the extent to which 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 provides a higher level of flexibility for the Bank in handling the interest rate adjustments and the 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 Bank has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 35: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2021	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	**14,562**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,562**	**6**	**14,568**
fixed interest	14,562	6	-	-	-	-	-	-	-	-	-	-	14,562	6	14,568
Placements with other banks	**-**	**-**	**-**	**-**	**126**	**-**	**-**	**-**	**151,849**	**-**	**-**	**-**	**151,975**	**-**	**151,975**
variable interest	-	-	-	-	126	-	-	-	151,849	-	-	-	151,975	-	151,975
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**16,037**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,037**	**-**	**16,037**
fixed interest	-	-	-	-	16,037	-	-	-	-	-	-	-	16,037	-	16,037
Loans measured at amortised cost	**78,229**	**77**	**172,866**	**142**	**13,750**	**-**	**75,778**	**-**	**795,448**	**-**	**-**	**-**	**1,136,071**	**219**	**1,136,290**
fixed interest	443	-	48	-	-	-	-	-	93,318	-	-	-	93,809	-	93,809
variable interest	77,786	77	172,818	142	13,750	-	75,778	-	702,130	-	-	-	1,042,262	219	1,042,481
Loans mandatorily measured at fair value through profit or loss	**7,815**	**-**	**11,036**	**-**	**73,064**	**-**	**28,718**	**-**	**285,186**	**-**	**-**	**-**	**405,819**	**-**	**405,819**
fixed interest	2	-	-	-	-	-	-	-	-	-	-	-	2	-	2
variable interest	7,813	-	11,036	-	73,064	-	28,718	-	285,186	-	-	-	405,817	-	405,817
Securities at amortised cost	**-**	**-**	**-**	**-**	**175,125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**175,125**	**-**	**175,125**
fixed interest	-	-	-	-	175,125	-	-	-	-	-	-	-	175,125	-	175,125
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**5,397**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,397**	**-**	**5,397**
variable interest	-	-	-	-	5,397	-	-	-	-	-	-	-	5,397	-	5,397
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,101**	**-**	**1,101**	**-**	**1,101**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,101	-	1,101	-	1,101

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2021	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 OTP Bank and other banks	-	-	-	-	**508,549**	-	**514,223**	-	-	-	-	-	**1,022,772**	-	**1,022,772**
fixed interest	-	-	-	-	508,549	-	514,223	-	-	-	-	-	1,022,772	-	1,022,772
Liabilities from issued securities	-	-	-	-	**170,183**	-	-	-	**601,828**	-	-	-	**772,011**	-	**772,011**
fixed interest	-	-	-	-	-	-	-	-	601,828	-	-	-	601,828	-	601,828
variable interest	-	-	-	-	170,183	-	-	-	-	-	-	-	170,183	-	170,183
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	-	**1,804**	-	-	-	-	-	-	-	**1,804**	-	**1,804**
variable interest	-	-	-	-	1,804	-	-	-	-	-	-	-	1,804	-	1,804
Leasing liabilities	**4**	-	**9**	-	**38**	-	**51**	-	**80**	-	-	-	**182**	-	**182**
fixed interest	4	-	9	-	38	-	51	-	80	-	-	-	182	-	182
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	**7,733**	-	**7,733**	-	**7,733**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	7,733	-	7,733	-	7,733
NET POSITION	100,602	83	183,893	142	(397,075)	-	(409,778)	-	630,575	-	(6,632)	-	101,585	225	101,810

NOTE 35 INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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	**3,381**	**5**	**-**	**-**	**2,009**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,390**	**5**	**5,395**
fixed interest	3,381	5	-	-	2,009	-	-	-	-	-	-	-	5,390	5	5,395
Placements with other banks	-	-	-	-	**1,303**	-	-	-	**124,478**	-	-	-	**125,781**	-	**125,781**
variable interest	-		-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**18,273**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,273**	**-**	**18,273**
fixed interest	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
Loans measured at amortised cost	**19**	**-**	**216**	**-**	**1,220**	**4**	**6,441**	**1**	**993,547**	**291**	-	-	**1,001,443**	**296**	**1,001,739**
fixed interest	-	-	-	-	-	-	-	-	44,329	-	-	-	44,329	-	44,329
variable interest	19	-	216	-	1,220	4	6,441	1	949,218	291	-	-	957,114	296	957,410
Loans mandatorily measured at fair value through profit or loss	**1**	**-**	**9**	**-**	**164**	-	**342**	-	**317,528**	-	-	-	**318,044**	-	**318,044**
variable interest	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
Securities at amortised cost	**-**	**-**	**-**	**-**	**108,455**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108,455**	**-**	**108,455**
fixed interest	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**442**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**442**	**-**	**442**
variable interest	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,011**	**-**	**1,011**	**-**	**1,011**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,011	-	1,011	-	1,011

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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 OTP Bank and other banks	**-**	**-**	**-**	**310**	**545,318**	**-**	**-**	**-**	**147,278**	**-**	**-**	**-**	**692,596**	**310**	**692,906**
fixed interest	-	-	-	310	-	-	-	-	106,999	-	-	-	106,999	310	107,309
variable interest	-	-	-	-	545,318	-	-	-	40,279	-	-	-	585,597	-	585,597
Liabilities from issued securities	**-**	**-**	**-**	**-**	**292,238**	**-**	**-**	**-**	**515,275**	**-**	**-**	**-**	**807,513**	**-**	**807,513**
fixed interest	-	-	-	-	122,215	-	-	-	515,275	-	-	-	637,490	-	637,490
variable interest	-	-	-	-	170,023	-	-	-	-	-	-	-	170,023	-	170,023
Derivative financial liabilities designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**780**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**780**	**-**	**780**
variable interest	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
Leasing liabilities	**5**	**-**	**9**	**-**	**42**	**-**	**55**	**-**	**121**	**-**	**-**	**-**	**232**	**-**	**232**
fixed interest	5	-	9	-	42	-	55	-	121	-	-	-	232	-	232
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	**5,774**	-	**5,774**	-	**5,774**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	5,774	-	5,774	-	5,774
NET POSITION	**3,396**	**5**	**216**	**(310)**	**(706,512)**	**4**	**6,728**	**1**	**777,879**	**291**	**(4,763)**	**-**	**71,944**	**(9)**	**71,935**

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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 following tables provide an analysis of liabilities 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.

As at 31 December 2021	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, due from banks and balances with the National Bank of Hungary	14,568	-	-	-	-	14,568
Placements with other banks, net of allowance for placement losses	2,334	7,189	142,794	-	-	152,317
Securities at fair value through other comprehensive income	438	-	15,000	-	-	15,438
Loans measured at amortised cost	51,706	50,890	272,280	779,768	-	1,154,644
Loans mandatorily measured at fair value through profit or loss	13,649	16,088	90,723	281,445	-	401,905
Securities at amortised cost	1,499	27,000	102,960	40,405	-	171,864
Property and equipment	-	-	-	-	12	12
Intangible assets	-	-	-	-	191	191
Other financial assets	1,142	-	-	-	-	1,142
TOTAL ASSETS	**85,336**	**101,167**	**623,757**	**1,101,618**	**203**	**1,912,081**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	4,232	504,317	358,170	156,053	-	1,022,772
Liabilities from issued securities	8,806	-	556,000	215,120	-	779,926
Leasing liabilities	13	38	131	-	-	182
Other financial liabilities	6,954	-	-	-	-	6,954
TOTAL LIABILITIES	**20,005**	**504,355**	**914,301**	**371,173**	**-**	**1,809,834**
Receivables from derivative financial instruments designated as fair value hedge	167	833	2,382	1,004	-	4,386
Liabilities from derivative financial instruments designated as fair value hedge	-244	-555	-2,361	-884	-	-4,044
Net position of financial instruments designated as fair value hedge	**77**	**278**	**21**	**120**	**-**	**342**
Net position of derivative financial instruments total	**77**	**278**	**21**	**120**	**-**	**342**
Commitments to extend credit	62,693	-	-	-	-	62,693
Off-balance sheet commitments	**62,693**	**-**	**-**	**-**	**-**	**62,693**

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [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, due from banks and balances with the National Bank of Hungary	5,395	-	-	-	-	5,395
Placements with other banks, net of allowance for placement losses	2,622	7,113	116,446	-	-	126,181
Securities at fair value through other comprehensive income	441	-	15,000	-	-	15,441
Loans measured at amortised cost	40,143	50,939	269,435	656,103	-	1,016,620
Loans mandatorily measured at fair value through profit or loss	9,502	13,519	71,424	223,384	-	317,829
Securities at amortised cost	646	-	96,590	9,600	-	106,836
Property and equipment	-	-	-	-	20	20
Intangible assets	-	-	-	-	192	192
Other financial assets	1,034	-	-	-	-	1,034
TOTAL ASSETS	**59,783**	**71,571**	**568,895**	**889,087**	**212**	**1,589,548**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	635	365,006	119,063	28,027	-	512,731
Liabilities from issued securities	8,705	122,100	556,000	120,100	-	806,905
Leasing liabilities	14	41	177	-	-	232
Other financial liabilities	5,042	-	-	-	-	5,042
TOTAL LIABILITIES	**14,396**	**487,147**	**675,240**	**148,127**	**-**	**1,324,910**
Receivables from derivative financial instruments designated as fair value hedge	-		341	101	-	442
Liabilities from derivative financial instruments designated as fair value hedge	-		103	677	-	780
Net position of financial instruments designated as fair value hedge	-		238	-576	-	-338
Net position of derivative financial instruments total	**-**		**238**	**-576**	**-**	**-338**
Commitments to extend credit	40,783	-	-	-	-	40,783
Off-balance sheet commitments	**40,783**	**-**	**-**	**-**	**-**	**40,783**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

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, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38.e) 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, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.
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 3 of the fair value hierarchy.

Fair value of financial assets and liabilities

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	14,568	14,568	5,395	5,395
Placements with other banks	151,975	151,975	125,781	125,781
Securities at fair value through other comprehensive income	16,037	16,037	18,273	18,273
Loans at amortised cost	1,136,290	1,175,594	1,001,739	1,302,678
Loans mandatorily measerd at fair value through profit or loss	405,819	405,819	318,044	318,044
Securities at amortised cost	175,125	178,454	108,455	128,197
Derivative financial assets designated as hedge accounting relationships	5,397	5,397	442	442
Other financial assets	1,101	1,101	1,011	1,011
FINANCIAL ASSETS TOTAL	**1,906,312**	**1,948,945**	**1,579,140**	**1,899,821**
Amounts due to OTP Bank and other banks	1,022,772	993,614	692,906	693,429
Liabilities from issued securities	772,011	736,904	807,513	869,870
Derivative financial instruments designated as hedging instruments	1,804	1,804	780	780
Leasing liabilities	182	182	232	232
Other financial liabilities	7,733	7,733	5,774	5,774
FINANCIAL LIABILITIES TOTAL	**1,804,502**	**1,740,237**	**1,507,205**	**1,570,085**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: 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.
- 3rd Level: 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 2021

	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	405,819	-	-	405,819
FVOCI securities	16,037	16,037	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	5,397	-	5,397	-
Negative fair value of derivative financial instruments designated as fair value hedge	-1,804	-	-1,804	-
Total	**425,449**	**16,037**	**3,593**	**405,819**

As at 31 December 2020

	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	318,044	-	-	318,044
FVOCI securities	18,273	18,273	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	442	-	442	-
Negative fair value of derivative financial instruments designated as fair value hedge	(780)	-	(780)	-
Total	**335,979**	**18,273**	**(338)**	**318,044**

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
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Operational costs	+/- 20%

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [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.

31 December 2021	Unobservable inputs	Fair values		Effect on profit and loss	
		Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	406,362	405,266	549	(547)
Loans mandatory measured at fair value through profit and loss	Operational costs	412,868	399,020	7,054	(6,794)

31 December 2020	Unobservable inputs	Fair values		Effect on profit and loss	
		Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	319,857	316,251	1,813	(1,793)
Loans mandatory measured at fair value through profit and loss	Operational costs	324,845	311,525	6,801	(6,519)

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2021

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	318.044	106.605	986	(4.941)	(14.875)	405.819
Total	**318.044**	**106.605**	**986**	**(4.941)**	**(14.875)**	**405.819**

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2020

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	256,943	74,579	(2,851)	(1,015)	(9,612)	318,044
Total	**256,943**	**74,579**	**(2,851)**	**(1,015)**	**(9,6129**	**318,044**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Amount, timing and uncertainty of future cash flows - hedging instruments

2021 Interest rate risk- interest rate swap (HUF)	Maturity One year to five years	More than five years	Total
Fair value hedge			
Notional	15,000	-	15,000
Average FX Rate	1.5%	-	-
Cash flow hedge			
Notional	12,194	28,027	40,221
Average Interest Rate	1.01%	1.58%	-

2020 Interest rate risk- interest rate swap (HUF)	Maturity One year to five years	More than five years	Total
Fair value hedge			
Notional	15,000	-	15,000
Average FX Rate	1.5%	-	-
Cash flow hedge			
Notional	12,194	28,027	40,221
Average Interest Rate	1.01%	1.58%	-

Derivatives held for hedging – as at 31 December 2021

	Assets	**Liabilities**
Derivatives designated in cash fair value hedges		
Interest rate swaps	-	1,804
Derivatives designated in cash flow hedges		
Interest rate swaps	5,397	-
Total derivatives designated in cash flow hedges	**5,397**	**1,804**

Derivatives held for hedging – as at 31 December 2020

	Assets	**Liabilities**
Derivatives designated in cash fair value hedges		
Interest rate swaps	309	-
Derivatives designated in cash flow hedges		
Interest rate swaps	133	780
Total derivatives designated in cash flow hedges	**442**	**780**

NOTE 37: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Hedge accounting – hedge instruments– as at 31 December 2021

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2021**
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	-	1,804	Derivative assets (liabilities) held for risk management	(2,125)
Cash flow hedge	40,221	5,397	-	Derivative assets (liabilities) held for risk management	6,130

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	6,652	(521)	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge instruments– as at 31 December 2020

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2020**
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	309	-	Derivative assets (liabilities) held for risk management	310
Cash flow hedge	40,221	133	780	Derivative assets (liabilities) held for risk management	780

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	292	488	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge items– as at 31 December 2021

	Type of risk	**Carrying amount of the hedging instrument for the year ended 31 December 2021**		**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**		**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**
		Assets	**Liabilities**	**Assets**	**Liabilities**	
Fair value hedge						
- Other securities	***Interest rate risk***	-	14,961	-	(1,753)	Liabilities from issued securities

	Type of risk	**Carrying amount of the hedging instrument for the year ended 31 December 2021**		**Cash flow hedge reserve year ended 31 December 2021**	**Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2021**
		Assets	**Liabilities**		
Cash flow hedge					
- Loans	***Interest rate risk***	-	40,357	(6.651)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedge items– as at 31 December 2020

	Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Other securities	***Interest rate risk***	-	14,945	-	(384)	Liabilities from issued securities

	Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Cash flow hedge reserve year ended 31 December 2020	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
		Assets	Liabilities		
Cash flow hedge					
- Loans	***Interest rate risk***	-	40,279	(292)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2021

Due to the prolongation of the coronavirus pandemic, the Hungarian government extended the repayment moratorium introduced in March 2020 in several steps, but from November 2021 it will no longer be general, but only for those in need.

In order to eliminate the effects of inflation and reduce the burden on consumers, the Hungarian government maximized the interest rates on existing loans with a reference interest rate at the October 2021 level until the end of June 2022.

The Mortgage Bank estimated a loss of HUF 3,340 million due to the extension of the repayment moratorium and a loss of HUF 2,694 million due to the interest rate maximization, which was also recognized in the profit in 2021.

NOTE 39: POST BALANCE SHEET EVENTS

In the second half of February 2022 the military conflict between Russia and Ukraine escalated.
The Company's management has assessed the armed conflict in Ukraine for the year 2021 and concluded that it has no impact on the data as of December 31, 2021. The Company has examined the impact of the conflict on its business and continues to assess the going concern basis.

Based on the assessment of the management of OTP Bank (as the parent company), the Russian-Ukrainian conflict has no significant negative impact on OTP Bank's business, financial condition, profitability, liquidity or capital position. There was no significant uncertainty about the going concern principle.

The financial statements for 2021 do not contain any descriptions of the possible consequences of the Ukrainian-Russian conflict and are treated as non-adjusting events after the balance sheet date.

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Independent Auditors' Report

To the Shareholder of OTP Jelzálogbank Zrt.

Report on the audit of the separate financial statements

Opinion

We have audited the accompanying 2021 separate financial statements of OTP Jelzálogbank Zrt. ("the Company") included in the accompanying JZB_IFRS_HUN_2021final.xhtml[1] digital file, which comprise the separate statement of financial position as at 31 December 2021 - showing a balance sheet total of HUF 1,913,311 million and a net comprehensive income for the year of HUF 28,547 million -, the related separate statement of comprehensive income, separate statement of changes in equity, 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 separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for separate financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also 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 ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the separate financial statements" section of our report.

[1] Digital identification of the above referred JZB_IFRS_HUN_2021final.htxml separate financial statements, using SHA 256 HASH algorithm is 3C77A80E837C0FF7DB659579A8A277758E38A36B9CD28E42D60AB7C76003A791

We are independent of the Company in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these 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 judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the separate financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Determination of expected credit losses

Material misstatements due to fraudulent financial reporting often result from understatement of expected credit losses. Credit impairment is a highly subjective area due to the level of judgement applied by management in determining expected credit losses ("ECL"). The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected	We involved valuation specialists to assist us in performing our audit procedures on ECL and related credit impairments. Our audit procedures included among others the following procedures. We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans at amortized cost and controls over ECL calculations including the quality of underlying data and applications. We assessed the controls over the general IT environment of the applications

future cash flows, and expected net selling prices of collaterals. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. These models require the significant periodic judgment of management regarding correct segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities. Due to the significance of loans at amortised cost (representing 59% of Total Assets as of 31 December 2021) and the related estimation uncertainty, this is considered a key audit matter.	relevant from audit perspective related to the determination of ECL. For ECL calculated on collective basis we evaluated the model governance, methodologies, inputs and management assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements). We considered the regulatory measures on the assumptions applied by the Company for ECL estimation purposes. We also assessed whether the disclosures in the separate financial statements appropriately reflect the Company's exposure to credit risk and are compliant with the EU IFRSs. The Company's disclosures about its risk management policies are included in Note 2.10 Loss allowance which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 8 Loans and Note 22 Risk cost .
<u>General Information Technology controls over the financial reporting process</u> A significant part of the Company's financial reporting process is significantly reliant on IT systems with embedded automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.	We focused our audit on those IT systems and controls that are significant for the Company's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures. We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on

As our audit of the financial statements sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort has been carried out regarding to understand and test IT infrastructure and applications including relevant application controls. Furthermore, the complexity of IT systems and nature of application controls requires special technology expertise and specialized skills to be involved in the audit we therefore consider this as a key audit matter.

the financial significance of the system and whether there were automated procedures supported by that system.
As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.
The Company's disclosures about its IT systems and related IT general and application controls are included in section System of internal controls and IT Controls of the Business report.

Other matters

The separate financial statements as at 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 23 March 2021.

Management is responsible for the presentation of the separate financial statements in the format that complies with the Article 3 of Commission (EU) Regulation 2019/815 of 17 December 2018 ("ESEF Regulation"). The scope of our audit was the human-readable content of the electronically identified digital file, which contains the separate financial statements. The scope of our audit did not include to review and consequently we do not report on, whether the digitalized information complies in all material respect with the requirements of ESEF Regulation.

Other information

Other information consists of the 2021 business report of the Company. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the separate financial statements does not cover the business report.

In connection with our audit of the separate financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available and whether the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

In our opinion, the business report of the Company, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2021 is consistent, in all material respects, with the 2021 separate financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, we do not express opinion in this regard.

We also confirm that the Company have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law[8] and that the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Company and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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 EU IFRSs and for the preparation in accordance with the supplementary requirements of the Hungarian Accounting Law relevant for separate financial statements prepared in accordance with EU IFRSs, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives 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 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 Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, 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 internal control that we identify during our 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, actions taken to eliminate threats or safeguards applied.

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.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the General Assembly of Shareholders of the Company on 25 March 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year.

Consistency with Additional Report to Audit Committee

Our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the business report and in the separate financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Nagyváradiné Szépfalvi Zsuzsanna.

Budapest, 24 March 2022

(The original Hungarian version has been signed.)

Nagyváradiné Szépfalvi Zsuzsanna
Engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165 --

Nagyváradiné Szépfalvi Zsuzsanna
Registered auditor
Chamber membership No.: 005313